

Dealing with Employment Shocks: Two alternative strategies were observed: **【A】** subsidizing firms to retain employees (even if not currently working) versus **【B】** allowing layoffs to proceed but providing those laid off with income support. Looking back, how did those alternative strategies fare? What lessons can we learn for responding to future employment shocks?

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1) Evidence from basic statistics accounting for the employment and labor market in Japan

- The unemployment rate in Japan has been low and the labor force participation rate has been rising since 2000 (*Figure1* from the Labor survey). This tendency has been continuing so far even during the pandemic.
- Although the job-offers-to-applicants ratio has not returned to pre-coronavirus levels, it has in fact never been below 1 since the pandemic started (*Figure2* from the MHLW).
- The number of recipients of the basic allowance, as a part of unemployment insurance benefits, is visibly smaller than during the GFC and the banking crisis in the late 90s (*Figure3* from the MHLW).
- Nonetheless, the amount of the employment adjustment subsidies (i.e., **【A】**) was much larger than in the financial crisis in 2008 (*Figure4* from the MHLW).

2) Policy evaluation for the Employment Adjustment Subsidies (EAS)

- Here, the question is to what extent the employment in Japan has been maintained through the generous government support through **【A】**.
- Regarding the effect of the EAS on the job retention, the White Paper on the Labor Economy states that they were “effective” in reducing the unemployment rate by 2.1 percentage points based on the assumption that ALL the recipient of EAS would have lost their jobs if EAS was not provided. This is obviously not a reasonable counterfactual.
  - Kawaguchi (2021) pointed out the possibility of overestimation.
- Apparently, we need more standard causal inference based on data to evaluate the effect of **【A】**.
- Results in the extant studies are somewhat mixed but as for the employment, the impacts are reported to be weak or even nothing. (*Table1*)

3) What lessons can we learn for responding to future employment shocks?

- While the EAS found no statistically significant results for employment, it has continued in FY 2021, cumulatively reaching 6 trillion yen.
- Timely analyses based on data (e.g., alternative data and surveyed data (e.g., Kawaguchi et al. 2022)) could help to prevent wasteful spending due to ineffective policies.

Figure1

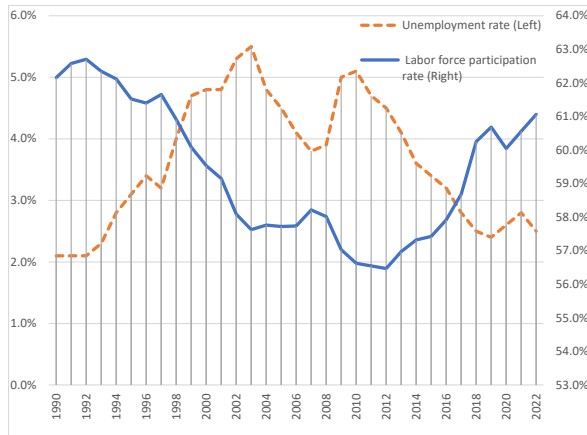


Figure2

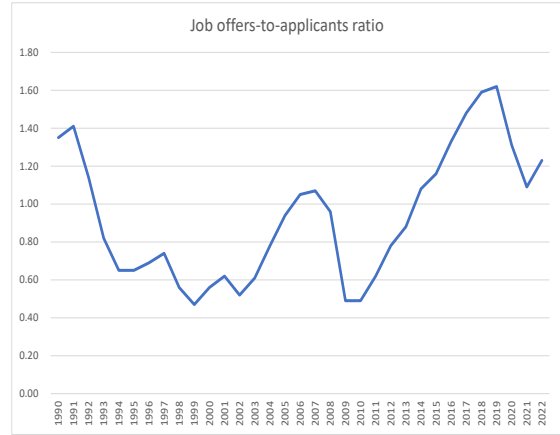


Figure3

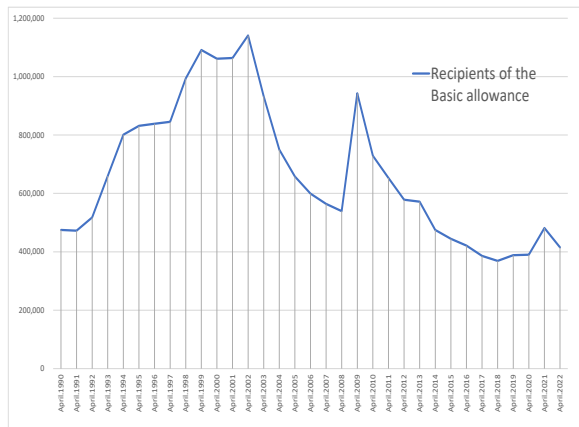


Figure4

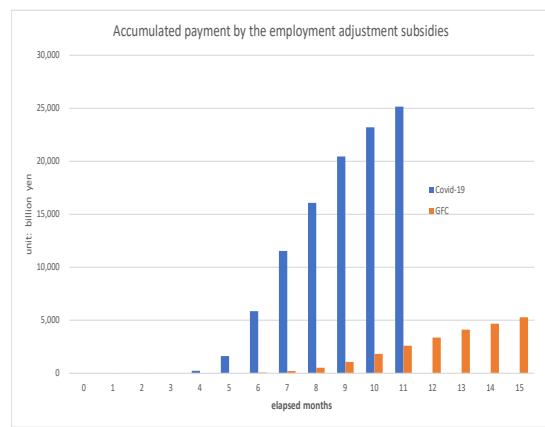


Table1

Impacts of the Employment Adjustment Subsidy (EAS)				
	Uesugi et al. (2022)	Kawaguchi et al.(2022)	Kobayashi (2021)	Fukuda and Yamamoto(2021)
Data	“Survey on the Status of Firms during the COVID-19 Pandemic” in Nov. 2020	Panel survey data on small business managers, in May 2020, July 2020, November 2020, and February 2021	“JILPT Panel Survey on the Impact of COVID-19 on Enterprise Management” in June 2020, Oct. 2020, and Feb. 2021	“JILPT Panel Survey on the Impact of COVID-19 on Enterprise Management” in June 2020, Oct. 2020, and Feb. 2021
Methods	PSM-DID	RDD	PSM-DID	2SLS
Results	No significant effect on firms’ employment	No statistically significant effects on the firm’s survival and the employment growth	Significant effects on preventing job cuts but the effects are weak	Significant positive effects on total payments