



Investigating Post-Corona: Reforms that Anticipate the Future This Time

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Key points

- Policies that protect the status quo have traditionally been at the core
- Policies that protect corporations to maintain employment have had many harmful effects
- There must be both protections for workers and a restructuring of corporations

On July 17, the Basic Policy on Economic and Fiscal Management and Reform 2020 was adopted as a cabinet measure. Noting that “As the world currently faces a major change, we must understand the new age and take preemptive initiatives towards social reform,” this policy also states, “We aim for the realization of a high-quality economic society through the new normal.”

We surely are facing a major change, and I want to rate the position of aiming for a high-quality economic society highly. However, when looking back at about 30 years of the Japanese economy, major changes have not led to social reforms that anticipate the future.



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The Japanese economy has seen many changes. The 1990s began with the bursting of the bubble, which eventually led to the financial crises in the latter half. Ten years later, the economy was dealt a blow with the global financial crisis, which was also followed by many other shocks including the Great East Japan Earthquake.

Each time the economy was hit by a large shock, what we observed were policies to protect the status quo rather than policies to advance reform for a new normal. This characteristic shows up clearly in policies meant to maintain employment. These policies attempted to maintain employment by resisting change and protecting corporations as they were, rather than to promote the restructuring of industries or the reallocation of labor.

The easiest policy to understand this with is the Employment Adjustment Subsidy system. This system, which dates back to 1975, was a monetary benefit for corporations that attempted to get through the changes without any fundamental employment adjustments, rather than being a subsidy for employment adjustments that responded to changes.

There have been calls for changing to policies that help the reallocation of labor to respond to changes. However, each time a large shock such as what the Japanese call the Lehman Shock actually occurred, the government turned back to the policies to maintain employment through protecting corporations. Relatively recently, the initial growth strategy of Abenomics was to “shift policies from excessive employment protection models to labor movement support models,” but no remarkable developments were seen after that.

It is of course undesirable for employment to be lost, and so when a shock has been seen, it is natural to attempt to protect employment and the lives of workers above all else. The problem is not in trying to protect employment itself, but in attempting to achieve this goal by protecting corporations and current jobs.

To respond to major changes that accompany changes in the structure of industries, it is necessary for new corporations that are suitable for the new economic structure to replace old corporations that have lost their competitive edge. Employment can be protected without protecting the jobs at the incumbent corporations if workers from old corporations can smoothly transfer to new corporations.

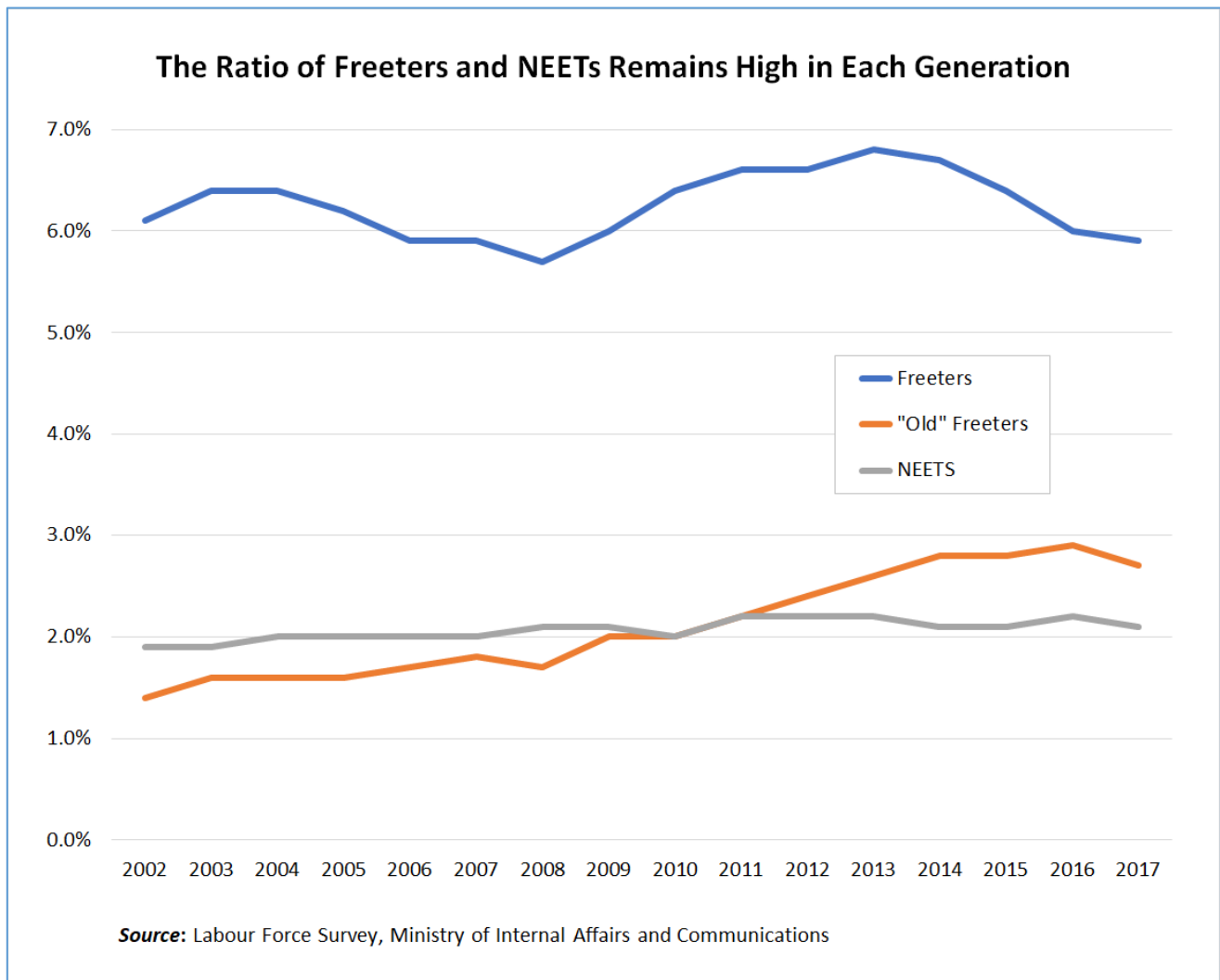
Policies that protect existing corporations so as to maintain employment raise two major problems.

The first is that these policies protect corporations that should leave the market and be replaced by new corporations. As a result, the economic restructuring, important to the economic growth of industrialized countries, is depressed. This is the issue of zombie firms as originally pointed out by Ricardo J. Caballero, Anil K. Kashyap, and myself. Protection of zombie firms became the biggest factor for the stagnation of the Japanese economy from the late 1990s through the 2000s.

The zombie problem has also come to be recognized in European countries recently. For example, a series of studies by the OECD on zombie firms shows that the number of zombie companies increased in European countries in the second half of the 2000s and reduced the rate of productivity growth in many countries. A recent paper by Viral V. Acharya et al. also shows that the existence of zombie firms has caused low inflation and deflation in Europe.

The other problem behind the policies that protect employment through protecting corporations is that not all employment is protected by these policies. This is a result of the policies to maintain employment being tied up with the Japanese employment practice, characterized by the lifetime employment system. While these policies protect the employment of those who work at large corporations, many of whom are male, full-time, salaried employees, they do not protect non-regular workers who are not covered by lifetime employment and workers at small and medium enterprises (SMEs). Moreover, many of the unprotected workers are female.

Protection of the incumbent workers covered by the lifetime employment system also reduces the opportunities for young people who are just starting out. For example, the research of Yuji Genda show that the higher the ratio of middle-aged to senior employees that a firm had, the more likely they were to stop new hires when the economic stagnation began in Japan in the 1990s.



Among the young people who entered the labor market since the latter half of the 1990s, there are more than a few who had no choice but to choose the path of becoming freeters (those who are between age 15 and 34, lack full-time employment, and hop between part-time jobs) or NEETs (Not in Education, Employment or Training) who had entirely. This is the issue of the so-called employment ice age.

The generation that was unfortunate enough to be subject to the employment ice age continues to suffer its effects even today. Recently, the media has reported that the number of freeters is decreasing, but that is due to the fact that the number of young people itself is decreasing. If we look at the ratio of the number of freeters and NEETs divided by the

population of the relevant generations, there has been little change for both freeters and NEETs since the start of the 2000s (see graph). The number of “old” freeters (aged 35 and above), which has recently been recognized, continues to increase.



The policy response to the economic shock of COVID-19 so far include several traditional policies that try to maintain employment by maintaining corporations. Moreover, as Sagiri Kitao et al. has shown, the coronavirus shock has hit workers in inflexible industries where working from home is difficult and with interactive jobs where face to face contacts are essential. Jobs at hotels and restaurants are the clearest examples of interactive jobs in inflexible industries. Non-regular workers, women, and workers without college degrees are prominent in these jobs and industries. Thus, the problems with traditional policies become more salient with COVID-19.

The Basic Policy 2020 aims to build a desirable society for the post-corona “new normal” and is said to achieve an inclusive society where every single person can feel a sense of purpose. To so do, the traditional policies that try to maintain employment through protecting existing corporations must be changed. Instead direct support for workers must be enhanced while also supporting corporate restructuring and the reallocation of labor.

Continued focus on the Employment Adjustment Subsidy to encourage corporate employment maintenance in the COVID-19 control measures makes one concerned that the traditional policies continue as they always have. However, at the same time, it may be commendable that the government has come to consider support that does not go through existing corporations, like the Special Cash Payments.

The path towards a high-quality economic society comes from a combination of policies that encourage corporate restructuring while also enhancing support for individual workers.

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