

Employment and Job Resignation among Japanese Youth

IWAWAKI Chihiro

1. School-to-work transition in recent years

In Japan, most young people obtain their first job en masse, immediately after graduating from the last school they attended. Regarding the school-to-work transition and the subsequent career development, on the other hand, the process varies by educational attainment.

Let us first review the status of youth education based on the *School Basic Survey* by the Ministry of Education, Culture, Sports, Science and Technology (MEXT). Under the Japanese government's labor policy, the "youth" is defined as people aged from 15 to 34, a definition used in this paper as well.

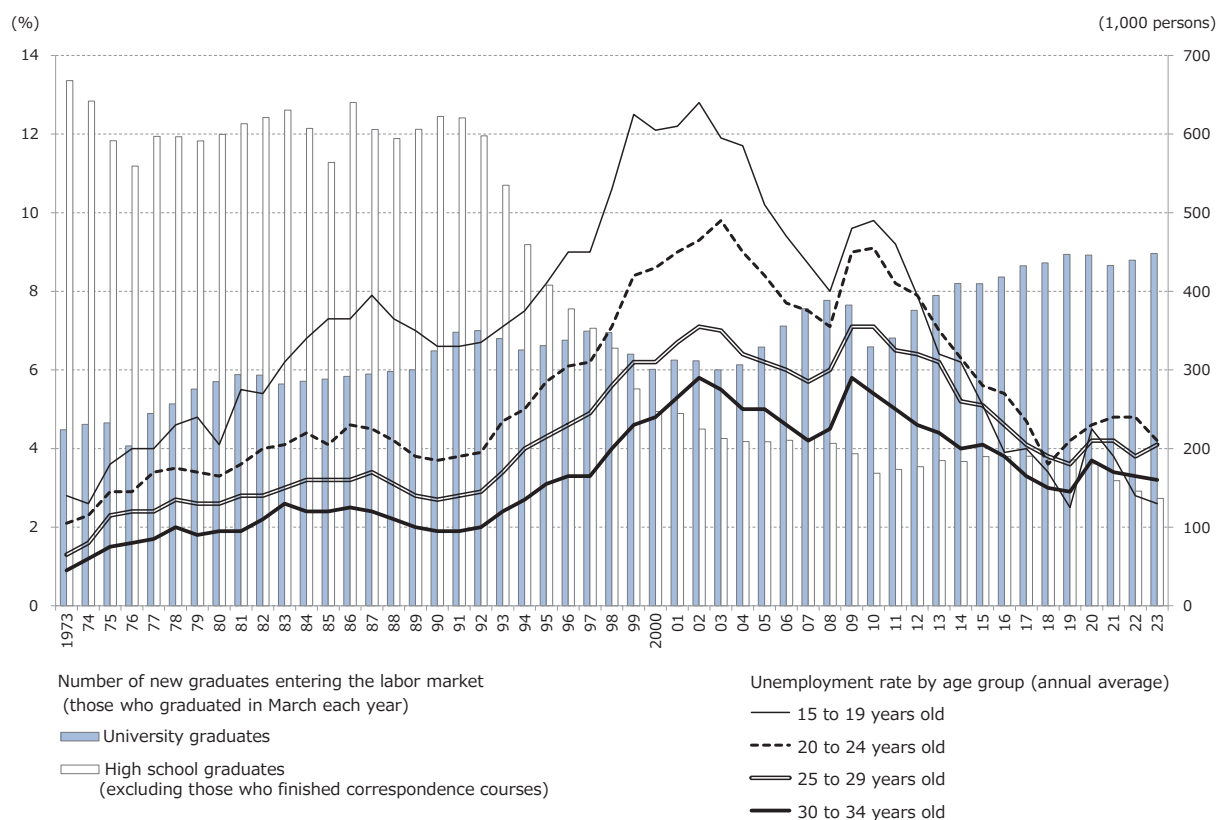
Most educational institutions send out their graduating students in March. The following shows the courses taken after graduation regarding new graduates of March 2023. 98% of junior high school graduates advanced to schools of latter secondary education. Among high school students, around 70% are taking ordinary general education courses at high schools and 30% are taking vocational courses. Of those who graduated from high schools, 60.8% advanced to universities or junior colleges and 20.3% to vocational schools or vocational training centers and the like, while 14.2% started working and 4.5% are in other states. Of those who graduated from universities, 75.9% obtained a job, while 14.2% advanced to graduate schools or other educational institutions and 8.2% took other choices.

The percentage of high school graduates who advance to universities or junior colleges continued to rise from 36.3% in 1990, up to 61.1% in 2023. The

number of new university graduates entering the labor market surpassed that of new high school graduates in 1997 (Figure 1). Looking at the breakdown of new graduates of March 2023 entering the labor market, 74,000 persons are from graduate schools, 448,000 from universities, 39,000 from junior colleges and technical colleges (higher educational institutions with a learning period of five years that accept junior high school graduates to help them acquire technical skills in the engineering field), 190,000 from the specialized courses of vocational schools (institutions that accept high school graduates to help them acquire specialized skills and expertise) and 136,000 from high schools.

As is clear from the above, university graduates account for the bulk of the new graduates who enter the labor market in Japan. According to a sampling survey conducted jointly by MEXT and the Ministry of Health, Labour and Welfare (MHLW) on the employment situation for new graduates from higher educational institutions, 97.3% of university graduates of March 2023 who sought a job have an offer of employment by the month of graduation.

High school graduates are a minority group in the labor market. However, against the backdrop of the shrinkage of the youth workforce due to the demographic crisis (the aging of society coupled with a chronically low birthrate), labor demand for high school graduates has been growing in recent years. According to MHLW's tabulation of job openings and application data collected by the *Hello Work* (Public Employment Security Offices), the ratio of job openings to job applicants was 3.49 for high school graduates of March 2023. Of all new



Sources: Number of new graduates from Ministry of Education, Culture, Sports, Science and Technology, *School Basic Survey*, and Unemployment rate from Ministry of Internal Affairs and Communications, *Labour Force Survey*.

Figure 1. The number of new graduates entering the labor market and in the youth unemployment rate (1973–2023)

high school graduates who sought a job, 99.7% obtained one within three months from graduation.

2. Japan’s unique system of new graduates recruiting

Behind the fact that most new graduates who seek a job become employed immediately after graduation is Japanese society’s unique practice of recruiting of new graduates (hereinafter the “new grad recruiting system”). In Japan, which at first lagged behind Western countries in industrialization, a highly fluid labor market segmented by occupation did not develop. As a result, a system of labor management that relies on an internal labor market has taken root widely as a kind of norm, mainly in manufacturing industries and among large companies

since the rapid economic growth in the mid-1950s through the mid-1970s. Under such system of labor management, employers provide seniority-based pay raises and slow promotions in order to motivate employees to develop a long-term commitment to their jobs, while responding to changes in labor supply and demand through in-house training with flexible personnel transfers. Therefore, companies hire young people—a labor force supposed to be highly responsive to training—at a time of graduation as regular employees (full-time workers with permanent labor contracts) without a pre-defined job description. That is to say, the new grad recruiting system comprises the hiring portion of the set of processes of this employment management system.

Under the new grad recruiting system, the personnel affairs management division, rather than

the heads of individual business divisions, is responsible for identifying the labor needs on a company-wide basis as well as for recruiting and training workers and assigning jobs to them. Generally, the personnel affairs management division recruits soon-to-be graduates in broad job categories—typically, “clerical jobs” and “technical jobs”—and selects applicants based on the level of general skills that may be useful in any divisions within the company, rather than specialized skills directly related to specific jobs. After being hired upon graduation, new recruits are first provided universal basic training and then assigned to individual divisions in accordance with their aptitudes and the divisions’ labor demand. New recruits finally receive on-the-job training under the supervision of the heads of their respective divisions. This recruitment and training cycle repeats itself periodically each year to coincide with the cycle of Japan’s academic year.

In Japan, organizations such as schools and Public Employment Security Offices act as intermediaries between students or new school graduates and companies, which is unique to Japan as an arrangement that resulted in the development of an institutional system for labor supply-demand adjustment in the period of postwar reconstruction through that of rapid economic growth. Regarding new high school graduates in particular, there is a long-standing practice of recruiting and hiring students through mediation by schools. In each prefecture, there has been an agreement among the government, the academia and the industry regarding recruiting and hiring students to protect minors and maintain the order of the labor market. However, the 2021 revision of the agreement made clear that high school students may engage, if they desire, in job-hunting activity apart from traditional way of seeking a job through recommendation by their schools. In addition, while each student has traditionally been allowed to apply only for a single job offer in principle during a prescribed period, the period tends to be shorter in recent years.

On the other hand, the recruiting and hiring of new university graduates, is not subject to such

restrictions in principle because they are adults and because they are educated and considered specialized enough to negotiate on equal terms with future employers. Nevertheless, since 1953, there has been an agreement between universities and business organizations on the timetable for recruiting activities due to concerns that inter-business competition was causing recruitment activities to be brought forward, which is interfering with students’ academic studies. Even so, as the agreement is not legally binding, many companies have not complied with it. The agreement has gone through a repeated cycle of losing and regaining effectiveness: it was disregarded when labor demand was strong and was respected when the demand was weak. The Japan Business Federation (*Keidanren*), the most influential business organization in Japan, announced its intention to discontinue the practice of formulating guidelines on university students hiring selection in 2018. The government set rules on the recruiting activity schedule regarding university students, which applied to graduates of March 2021 and beyond. Moreover, the treatment of internship programs for university students, the purpose of which has until now been limited to education, will be changed starting with students who will graduate in March 2025. Companies will be able to use information on students that they have obtained during internship for the purpose of hiring selection if certain conditions are met. While this change is expected to facilitate job matching for the youth, concerns have been raised that the start of job-hunting activity may be in effect moved forward or that hiring competition between companies may intensify.

3. Destabilization of youth careers

Due to the successful effects of the new grad recruiting system and institutional linkage, the youth unemployment rate in Japan stayed low compared with those in other developed countries for many years from the 1960s. However, following the collapse of the economic bubble in the early 1990s, the employment situation for the Japanese youth started to deteriorate. Behind that trend was the fact

the new grad recruiting system is susceptible to the effects of economic cycles. That is because companies try to overcome periods of recession by curbing personnel costs through the suspension of new graduate recruitment.

From a long-term perspective, the destabilization of the employment situation for the youth was due to the effects of companies' efforts to increase employment flexibility in order to adapt to the increased uncertainty over the business environment caused by the progress in globalization and post-industrialization. More specifically, because of an increase in non-regular employment, overseas transfer of production bases, and outsourcing of business processes, relatively simple routine business processes that were previously performed by new graduates moved away from the Japanese labor market for regular employees.

The effects of that trend became particularly conspicuous among young people who were at a competitive disadvantage in the labor market, such as women and people with a high school diploma. The number of job openings for new high school graduates was reduced to a seventh of the peak level over a period of only 10 years (from 1.67 million openings in 1992 to 220,000 openings in 2003). As a result of an increase in high school students who choose to advance to higher education, rather than seeking a job, a supply glut occurred in the labor market of new university graduates, resulting in intensified competition for jobs.

Consequently, such phenomena had increased the number of young people who continue job-seeking activity after graduation or who start their working career as non-regular employees. This situation attracted attention to the social problems of the expanding pool of young people, to whom new labels such as "freeters" (young part-time workers, excluding those married) and "NEET" (not in education, employment, or training) were attached.

As shown above, the employment situation for the youth deteriorated rapidly in the 1990s through the middle of the 2000s, and after improving somewhat due to economic recovery, it deteriorated once again because of the global financial crisis in

2009. However, since the economy entered an expansion phase thanks to the monetary easing policy introduced around 2015, the employment situation for the youth has until now stayed favorable, in part because of a decline in the youth population. The number of freeters, which surpassed two million at its peak in 2003, has gradually decreased, standing at 1.32 million in 2022, the most recent year for which the data is available. Meanwhile, the number of jobless young people has stayed at around 600,000 since the first half of the 2000s except for a temporary rise in 2020 due to the effects of the COVID-19 pandemic, and it stood at 570,000 in 2022.

However, the degree of recovery in the employment situation for the youth differed depending on the career path that individuals followed. Figure 1 shows that the decline in the unemployment rate in the 2010s was more moderate for the age groups of 25–29 and 30–34 years old than for 15–19 and 20–24 years old which include new graduates. That is because job openings for regular employee positions are very limited for young people who are considered as neither new graduates nor human resources with sufficient work experience, in the Japanese labor market where the new grad recruiting system has been firmly entrenched. The options available for young people who failed to start their career as a new graduate would be applying for jobs as second-chance candidates in the new grad recruiting system, or applying for mid-career positions that are open to fill vacancies or to meet specific labor demand. They have to search such job offers while being unemployed or working as non-regular employees. Despite such efforts, new graduates of the relevant year are given precedence even when the recruitment of new graduates reopens or the number of recruits increases during the economic recovery period. For mid-career positions, importance is attached to the possession of sufficient work experience and readily useful skills. In either case, young people who are not new graduates and who have little work experience are put at a disadvantage.

In Japan, a society dependent on an internal labor market, opportunities for developing occupational

abilities are concentrated on in-house training conducted by companies, and those who receive such training tend to be mostly regular employees, who are legitimate members of companies. Public vocational training programs are not widely available. Young people have few opportunities to develop vocational abilities once they fail to obtain a job upon graduation and start their career as a non-regular employee or when they are jobless for a long time, even if they wish to improve their skills to the level required to mid-career workers. Furthermore, even if they obtain a regular employee job from a non-regular position or state of jobless, they tend to be employed by small and medium-sized companies or in the labor-intensive industries, and to engage in a job as sales, services, and manual labor. In contrast, those who were hired as regular employees upon graduation tend to be working for large companies or in manufacturing or knowledge-intensive industries, and to engage in specialized jobs or technical jobs and clerical jobs.

Summarizing the above, the new grad recruiting system has the structural flaws. The fortunes of new graduates in the labor market are largely left to chance depending on the economic situation when they graduate. Also, as the system is for recruiting students en masse, it is difficult for non-new graduates to start over for a second chance. In fact, these negative features of the system caused the greatest damage to people who graduated from schools between 1993 and 2004 (who were born between 1975 and 1985 in the case of high school graduates and between 1970 and 1980 in the case of university graduates) because the period was the time when the school to work transition was particularly difficult. Those people, so-called employment ice-age generation, are now in their 40s or 50s, and have tended to find it difficult to develop a stable career compared with other generations.

4. Quality of employment for the youth and the problem of early job resignation

Now that the low birth rate has significantly shrunk the youth population, starting career as a

regular employee will not be as difficult for new generations who have yet to transition from school to work as for older generations. *The Employment Status Survey* conducted by the Ministry of Internal Affairs and Communications shows, between 2007 and 2022, the number of the employed aged 15 to 24 not attending schools fell steeply, from 4,385,000 to 3,444,000 persons, and the percentage of regular employees among them rises sharply, from 66.8% to 77.2%. One emerging challenge at the moment is the “quality of employment as regular employees.”

Why has the quality of employment come to be recognized as a challenge? There are two reasons: 1) the presence of companies that have abused the youth as an expendable labor force that may be exploited under harsh working conditions, which has become a social problem, 2) the percentage of new graduates’ job resignation within three years after obtaining the job (hereinafter the “early job resignation rate”), which had remained at a high level since the mid-1990s (until the mid-2000s).

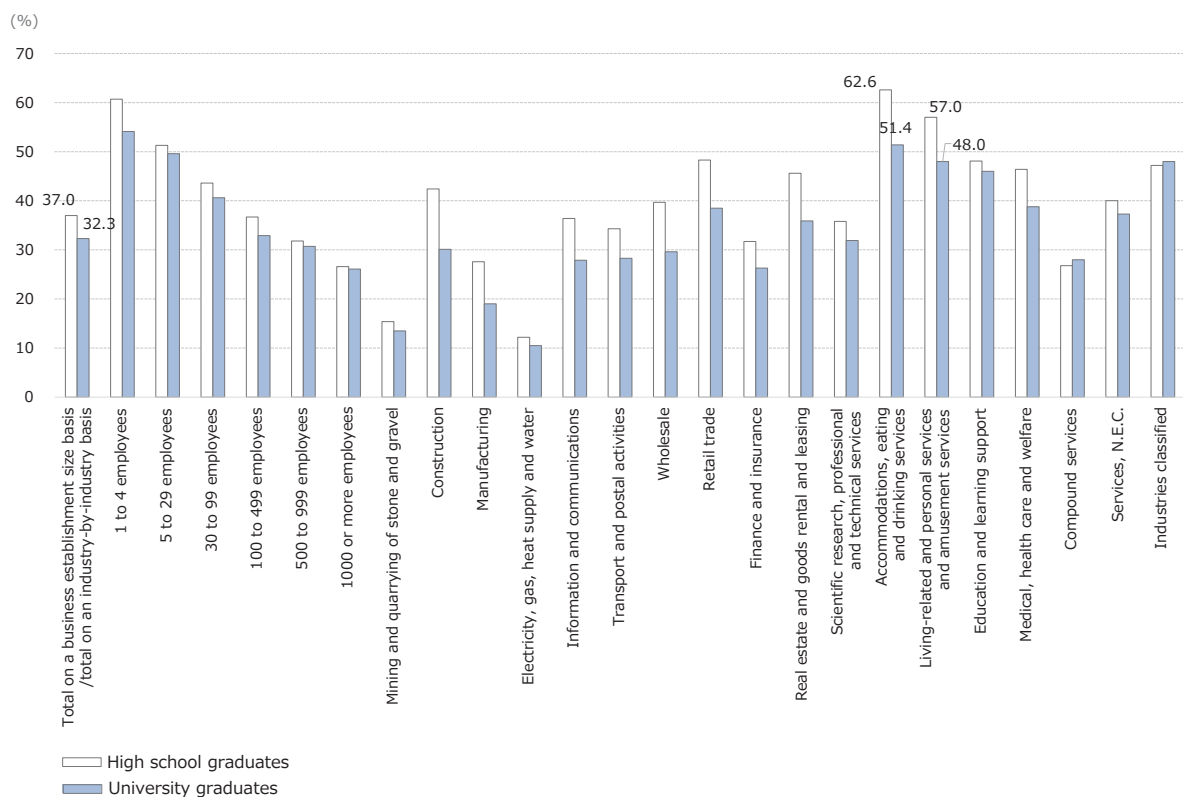
In Japan, the path to regular employment is difficult for not only young people who are jobless or non-regular employees but also those with little work experience. Specifically, a new graduate who is hired as a regular employee but soon resigns from the job before obtaining sufficient work experience will have hard time to obtain a regular employee job again as they are recognized by companies as being not usable enough for mid-career positions. For companies as well, having a young new regular employee leaves from the company soon after entering would cause a significant loss in that the costs of recruiting and initial training are wasted. According to the MHLW’s statistics calculated based on employment insurance data, the early job resignation rate was 52.9% for those who graduated from junior high schools, 37.0% for those from high schools, 42.6% for those from junior colleges, vocational colleges, and the like, and 32.3% for those from universities, as for new graduates of March 2020 (the most recent data available in this source). As changes in the ratio of job openings to job applicants affect job matching for the youth, the early job resignation rate tends to rise in periods of

economic contraction when the number of those who accept unwilling jobs increases, and in contrary tends to decline in periods of economic expansion when the matching goes well. As the economic situation has been favorable in recent years, the early job resignation rate has stayed flat at a slightly lower level than in the past.

The reasons for early resignation from the job may include their forward-looking ones necessitated by efforts toward career development such as climbing the career ladder and searching a more suitable job. On the other hand, inappropriate employment management by employers is presumably another reason for that. According to a survey conducted by the Japan Institute for Labour Policy and Training (JILPT 2019), companies that tend to lose employees who have obtained their first regular employee job there within three years of hiring have the characteristics such as “long working

hours,” “low wages,” “gaps in working conditions between the reality and what was informed before hiring,” “the occurrence of workplace problems such as nonpayment of overtime pay and acts of harassment,” and “a lack of education and training or workplace communication.”

In addition, the early job resignation rate tends to be higher at smaller business establishments and high in the following industries: accommodations, eating and drinking services; living-related and personal activities, and amusement services; retail trade; medical, healthcare and welfare; and education and learning support (Figure 2). This tendency is observed almost every year. That is presumed to be because the sorts of employment management that are peculiar to small business establishments and the abovementioned industries are liable to encourage young people to resign from their job early. For example, in industries that employ many workers



Source: Created by the author based on MHLW 2023, <https://www.mhlw.go.jp/content/11805001/001158687.pdf>.

Figure 2. Early job resignation rate among new graduates of March 2020 who immediately entered the labor force (by business establishment size, by industry, and by educational attainment)

engaging in specialized jobs or technical jobs requiring occupational qualifications, the labor market is highly mobile and employment management may not be conducted in a way suited to long-term employment in the first place. Meanwhile, in industries that tend to suffer a chronic labor shortage, employers may be unable to allocate financial and human resources sufficiently to training the youth or improving their working conditions.

5. Youth employment policy in recent years

As mentioned earlier, the new grad recruiting system enables young people to transition from school to work smoothly in Japan. When the employment situation for the youth started to deteriorate in the mid-1990s, public opinion initially leaned toward the view that young people themselves were to blame because of their moratorium tendency and immature career views. However, the understanding of the social structural factors that were beyond young people's control gradually spread. Around the mid-2010s, when the youth population started to decline conspicuously, awareness about the importance of society-wide efforts to care and support for the youth began to grow on the labor demand side.

This social trend led to the entry-into-force in 2015 of the Act for Employment Promotion of Youth, etc. (Youth Employment Promotion Act), which constitutes the legal foundation for supporting youth employment on a permanent basis. As its basic principle, this law regards the youth as the future backbone of the society and economy and as people who should be cared for so that they can develop into capable workers and lead a fulfilling working life in accordance with their motivations and abilities, and it also calls for young people themselves to have awareness about their responsibilities and behave accordingly. The law has clarified the respective responsibilities of companies, specified local public organizations, and job mediation service business operators and has prescribed provisions for cooperation and collaboration between those entities so that it enables young people to choose an

appropriate occupation and to provide them with employment opportunities suited to their abilities and desires. Specifically, existing organizations to support youth employment were established permanently based on the law. Also, the following schemes were set up. First, they obligated companies that offer jobs to new graduates to provide accurate information on not only the working conditions but also other employment-related affairs including the recruiting and hiring situation, education and training, and the status of employment management. Second, a new system was established to prohibit companies that have violated the specified labor-related laws and regulations from offering jobs to new graduates through the Public Employment Security Offices for a certain period of time. Third, the "Youth Yell Certified Company" system was established to recognize small and medium-sized companies that are actively hiring and training the youth under an excellent youth employment management (The word "yell" is used here to mean "give encouragement").

6. Closing

It is almost 10 years since the enactment of Youth Employment Promotion Act. As the young population continues to shrink, conscious efforts are necessary for our society to reflect the opinions of young people who are now a minority group in the aging society. The escalation of competition for young labor in the business world may create unexpected employment-related problems. We need to keep a more careful watch on future developments. Also, we need to continue support for the employment ice age generation, who, as youth, happened to enter the labor market at an extremely difficult time. Japan is expected to face a severe labor shortage. The sustainable development is difficult to achieve without building a society in which all young people and former young people in different situations can fully exercise their respective abilities.

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IWAWAKI Chihiro

Senior Researcher, The Japan Institute for Labour Policy and Training. Research interest: Educational Sociology and Labour Sociology.

<https://www.jil.go.jp/english/profile/iwawaki.html>

