

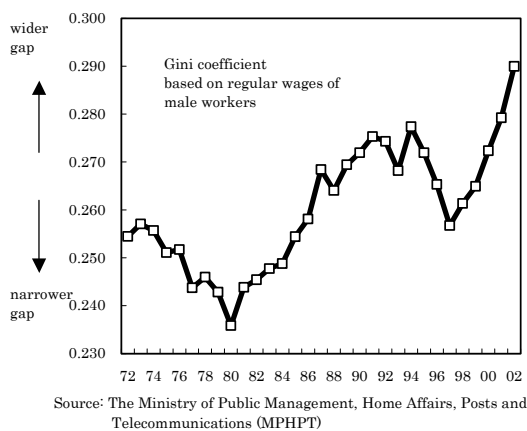
A Rapid Increase in “Freeters¹” and Its impact on the Japanese Economy²

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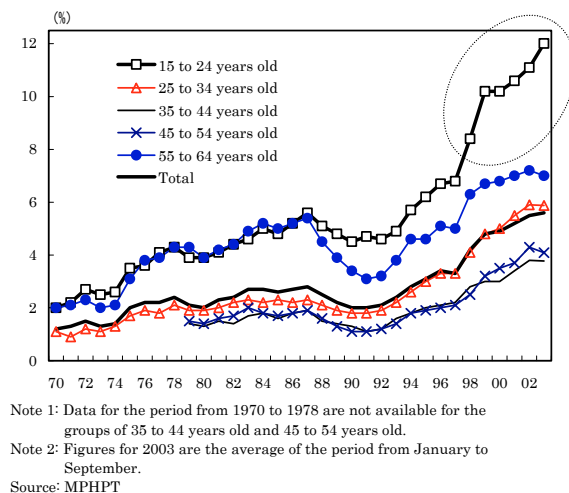
Since 1998, the income inequality has been widening rapidly in Japan. The Gini coefficient, which shows the extent of the income inequality, has been rising as shown in the figure below. This widening inequality derives partly from a drop in income for the low-income group, as the economy has been stagnating. In addition, the income inequality among middle and senior age group, a group of age more than 50 years old, has expanded since companies have cut wages and jobs mainly in this age group. The expansion in the income inequality is also followed by the historically high unemployment rate, particularly among the middle age group and young people, ranging from 15 to 24 years old: Companies have also refrained from hiring new graduates in order to reduce personnel expenses.

As a result, “freeters” are increasing. According to the Cabinet Office’s White Paper on the National Lifestyle, the number of “freeters” reached 4.17 million in 2001, and one out of five young people between 15 and 34 years old are “freeters.”

Gini coefficient is rising



Unemployment rates by age group (male)



These developments have an important impact on the accumulation of financial wealth. The widening income inequality and high unemployment rate make it difficult for middle age people to save funds for everyday expenses after their retirement. As a result, an increasing number of middle age households spend their savings to make up for a decline in regular income. Nevertheless, as their saving levels are relatively high, and they can expect to receive a

¹ “Freeter” is a term for young people who work in part-time jobs or unemployed.

² This is an English summary of a report originally published on November 11, 2003. The full report is available only in Japanese, but the author will answer questions regarding the topic by e-mail.

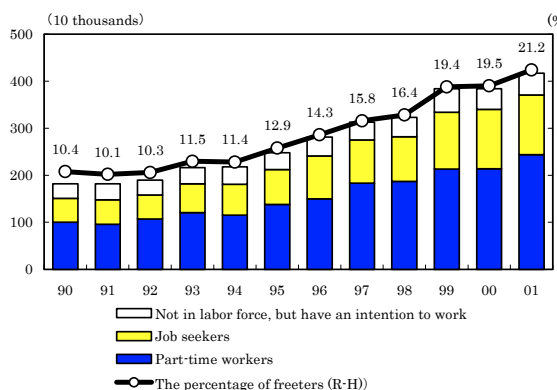
reasonable pension, the negative impact of a wider income inequality will be offset to some extent.

Meanwhile, the situation is quite serious for young people. With high unemployment and an increase in “freeters,” the percentage of households with no savings is rising, primarily among young people. If young people are not able to secure a regular job in their 30s, the age when people usually accumulate financial wealth, a group of people will emerge with very little savings for their lifetime. Assume the case of someone who graduated from university in 1998 but never held a regular job until today, and this person would forgo 16 million yen in income; his estimated lifetime income would amount to 290 million yen. As a result, his savings would be 2.8 million yen less than the average savings of 26 million yen for those of over 65. In addition, if this situation continues for 5 more years, the missing income would amount to 39 million yen, and his savings will be 4.4 million yen less than the average.

Another damaging aspect of being a “freeter” is that it is difficult to obtain a regular job without the opportunity to develop job skills. Once one becomes a “freeter,” there appears to be no easy way out. A wider income inequality and a delay in wealth accumulation among young people may be damaging not only to those affected, but also to the Japanese economy as a whole. Less income and savings could be detrimental to economic potential. It is also feared that this development will cause additional damage to Japan’s social security system, which is already fragile. According to our estimates, the lost income from “freeters’” failure to obtain regular jobs amounts to 12 trillion yen, 4.4% of total employee compensation in 2002.

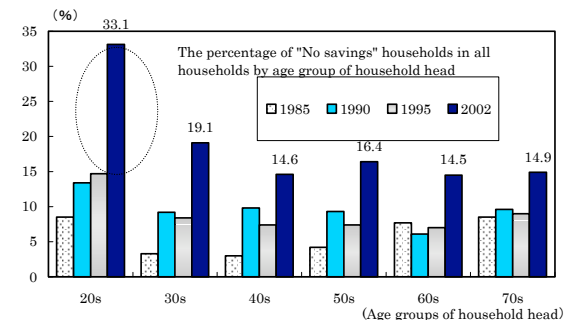
In the long term, it is important to increase flexibility in the labor market, but some direct supports to young people should be implemented in the meantime. This assistance should be some incentives for young people to receive training to learn needed skills, not direct income supports.

The number of “freeters” is growing



Note :Freeters are total of young people (age of 15 to 34), who have part-time jobs, seek jobs, and are not in labor force, but have an intention to work, excluding students and housewives.
Source: Cabinet Office, Ministry of Health, Labor, and Welfare

The percentage of households with no savings by age group



Source: The Bank of Japan

*The information and the views contained herein are subject to change without notice.

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