

Mismatches Put Shackles on Economic Recovery

By Hamano Takayoshi

Depending on usage, the word "mismatch" does not necessarily point to something negative. Take fashion, for example. The deliberate mismatch created by the combination of different clothing can actually produce an aura of freshness. Or the world of money: "Mismatch bonds" are a type of floating rate bond. Interest payments are made every three months or six months, and the coupon rate is revised frequently every one to three months, so that it stays close to volatile interest rates. As a result, fund procurement and management are made easier.

Even though the Japanese economy at last is beginning to show some signs of recovery, immediate conditions are still uncertain, and it cannot be said to be out of the recession yet. It is perhaps no exaggeration to say that one of the shackles hindering a full-fledged recovery is the phenomenon of mismatch, which has become noticeable in many areas. Let us take a closer look at this phenomenon.

Mismatches in Recession

For example, the current consumer recession is said to be caused by the fact that closets are full and households just do not have anything new that they want to purchase. But is this really so? Maybe another important factor is the mismatch that exists between the goods and services that consumers are looking for and the goods and services that are being supplied. Certainly there are perhaps limits to people's basic consumption demands, such as clothing for all seasons and safe housing. But as explained in economic textbooks, once these basic demands are satisfied, people tend to shift to selective consumption. The characteristics of selective consumption are upgrading

and diversity. Consumer behavior becomes individualized, individuals turn to consumption for self-realization, and new demands are born through advertising and so on. Accordingly, if goods and services are provided that target this selective consumption, then consumer demand will expand.

This spring a certain men's hair tonic from the U.S. became available in Japan. Despite the fact that its price in Japan was more than 40% higher than the prices of similar American products, it sold like hot cakes, sparking, as reported in the U.S. *Wall Street Journal* in early August, a "marketing frenzy" in Japan's hair tonic business. According to the *Wall Street Journal's* article, Japanese men splash out nearly \$400 million a year on antibalding products. Incidentally, when I went to a Japanese store to buy the new tonic, I was told that even if I made a reservation, it was not known when the store would be able to get another shipment. Neatly matching the phenomenon of the aging of society in Japan, this business venture seems to have hit the mark.

Mobile telephones and personal computers for individual use, which are selling well, are also examples of the success of goods that match the selective needs of consumers. But certainly not everything hits the jackpot in Japan's information and telecom market. For example, at first the PHS (personal handyphone system) phone, a smaller and more limited kind of mobile phone, was expected to take off, and the already existing cellular phone was forecast to die out. But now cell phones, with their cheaper rates and convenience of use, are winning the duel easily.

In the first half of the 1980s new media systems also failed to blossom,

despite heavy advertising by the telecom industry, and now the multimedia phenomenon is in dire straits. In contrast, NTT's "Pocket Bell" beeper became unexpectedly popular for a while, especially among young people, and indeed among the Japanese this brand name became the generic term for portable pagers in general.

Rather than being fixed, consumer needs appear to often change depending on the situation. However new they may be, products that are developed without taking account of these real needs of consumers will not sell, and a mismatch will arise.

The Expanding Employment Mismatch

The problem of mismatch is most serious in the field of employment. The full unemployment rate in Japan reached 4.9%, the highest ever, in July and has remained at that level since. In the past Japan stood out among the developed countries because of its noticeably low level of unemployment, but now the situation has changed. Since December 1998 Japan has had a higher unemployment rate than the U.S. According to a forecast by a leading private-sector think tank, the unemployment rate will exceed 5% for fiscal 1999 and reach around 5.5% in fiscal 2000.

Some observers point out that the unemployment rate has worsened because the emergency job-creation measures that the government recently announced will not have an effect until the fall at the earliest and, moreover, the effect of these measures will be limited.

Moreover, the effective ratio of job seekers to job vacancies in July remained at a record low level of 0.46 (seasonally adjusted) for three consecutive months, meaning that for every 100 persons seeking a job there

were just 46 openings. So there is a real mismatch between job seekers and job vacancies. The Ministry of Labor analyzes this mismatch in this year's white paper on labor, which it released in July.

According to this white paper, the employment mismatch has been caused by structural changes in labor force demand; it is different from unemployment brought on by fluctuations in demand caused by the ups and downs of business. Furthermore, as well as mismatches among industries, there are also generational and regional mismatches. With the exception of regional mismatches, mismatch unemployment has been increasing in Japan since the collapse of the bubble economy in the early 1990s.

Companies now are devoting their efforts toward full-fledged restructuring so that, even if they cannot expand sales, at least they can show a profit. According to a labor force survey by the Management and Coordination Agency, white-collar office workers, who account for about 20% of all employees, have felt the impact of restructuring most heavily. Noticeably, the number of office workers in June was down by 3.4% from the same month in the previous year, the largest decline for any group of workers. Next came skilled workers and construction workers. In the case of white-collar workers, more and more companies have recently been outsourcing their administrative work, such as personnel affairs, recruitment, and accounting, and shrinking their administrative sections. Conversely, many job seekers continue to look for administrative work, so this has the effect of further lowering the job application-to-opening ratio.

In contrast, there are not so many job seekers in the fields of security and services, which attract a relatively younger segment of the population.



Mismatch unemployment has been increasing

Indeed, although there are regional differences, even in this age of job-finding difficulty, there are companies in these fields that are finding it hard to secure the necessary personnel.

In occupations requiring specialized knowledge or skills, the number of job vacancies is relatively high, regardless of age, so unlike manual labor, there is not so much mismatch here between job seekers and job offers.

Nevertheless, the employment mismatch is continuing to drag on despite the economic recovery, and it cannot be denied that the resulting job instability is putting a shackle on this recovery.

What Is Needed to Eliminate the Mismatches?

In order to eliminate the mismatches in goods and services, the most important thing is for the supplying companies to draw as close as possible to consumers and grasp their real needs. In the case of employment, however, it is not so simple. After all, even if, because of structural changes, it is not possible to secure the same amount of employment as before, it is necessary to transform people's attitudes and make certain preparations so as to adapt to those changes.

Japan's fiscal policy so far has been centered on the expansion of public works investment with the objective of

activating the regions and achieving economic recovery. As a result, the number of construction-related workers in 1996 reached 5.5 million persons, accounting for 10.4% of the total number of workers. This share was far higher than those of, for example, the U.S. (6.3%), the United Kingdom (7.0%), or Germany (8.7%) and gave Japan the reputation of being something of a "construction paradise." Over the years the construction industry has certainly played an important role in supporting job stability

in Japan. But now the fiscal administration has fallen into a critical condition and the government is being forced to review its public works policy, so this mechanism of stable employment can no longer be maintained.

Meanwhile, the government's economic white paper this year points out that the advance of the information society, such as the formation of networks for personal computer use, has had the effect of making people redundant on the one hand and creating new jobs in the field of information on the other. From 1990 to 1997, the report states, while there was a net increase of 3.4 million jobs in the U.S., in Japan there was a net decrease of 220,000 jobs.

It has been mainly middle-aged and elderly people who have felt the brunt of these changes and lost their jobs. In order to assist these victims of mismatch, as well of course as job introductions and vocational training, it is most important to create new jobs by further promoting structural reform. And needless to say, it is also necessary to relieve the shock of temporary economic hardship through finely tuned countermeasures.

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