

# Summary: Employment Status Persistence in the Japanese Labor Market

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The growth of dual labor market, consisting of a primary sector of stable *regular* employment and a secondary sector of unstable *non-standard* employment, has become a cause for concern for policymakers trying to boost output and keep unemployment low while also maintaining job security. This paper uses the *Keio Household Panel Survey*, an individual-level panel dataset, to investigate the effects on future employment opportunities of employment in Japan's non-standard employment and regular employment sectors.

My findings suggest that workers differ in key respects, such as education and training, between the two sectors. I also find that the two employment sectors are not divided simply along industry or occupation lines, but that many workers switching between employment in the regular sector and employment in the non-standard sector remain in the same occupation and industry.

I then use an instrumental variables approach to measure the impact on future employment opportunities of starting one's career in either the regular or non-standard sector. My results suggest that starting one's career in non-standard rather than regular employment reduces one's probability of being in regular employment in the future. The effect appears to be particularly severe for less educated workers.

Using a dynamic unobserved effects model, I find that there is a large degree of state dependence after controlling for individual heterogeneity so that people are likely to remain in the whichever employment sector they currently find themselves. Persistence in both sectors of the dual labor market appear to increase with age, so that older workers are more likely to remain in their current employment sectors than young workers. In tracking the level of persistence over time, I find that in both the regular and non-standard employment sectors persistence decreased for young workers during 1963-1991, but has generally been increasing since then.

These findings contribute to an understanding of the evolution and present structure of Japan's dual labor market. Hopefully this will lead to research on the welfare costs and appropriate policies needed to promote full employment in Japan.