

Non-regular employment and gaps in statistics in Japan

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1. New developments in the Japanese labour market

After the collapse of the bubble economy in 1991, Japan suffered from economic slowdown for a decade, during which the Japanese labour market took on a different appearance. The drivers of change were multi-faceted. This note covers three of them: shareholder capitalism, business use of an ‘employment portfolio’, and relaxation of labour legislation.

First, various legislative revisions have enhanced shareholder’s power vis-à-vis managers and have fundamentally undermined the cross-shareholding practices that used to insulate managers from any threats of hostile takeover attempts. The Commercial Code was amended to ease shareholder lawsuits in 1993. Japan’s harmonization of its accounting standards¹ with the International Accounting Standards in the late 1990s and early 2000s revealed unrealized capital losses on shares because of the sharp fall of stock prices in early 1990s. The Shareholdings Restriction Law of 2001 limited banks’ shareholdings and sped up the dissolution of cross-shareholding. The shares that left stable shareholders accumulated in the hands of foreign investors. Unlike quiescent traditional Japanese shareholders, whose interest in shareholding was to cement business relations among group companies or with business partners, some foreign investment funds and investors actively demanded higher dividends. In fact, dividends paid by large companies to shareholders nearly quadrupled between FY2001 and FY2006. Executive bonuses and salaries doubled during the same period despite stagnant sales. Employee salaries declined slightly and fringe benefits dropped sharply. Dore² points out the advent of shareholder capitalism in Japan.

Downward wage pressure led to the second driver of changes in the Japanese labour market, greater use of non-regular employment³. Nikkeiren, an employers’ organization, promoted use of the ‘employment portfolio’, a mix of regular employees with open-ended contracts, specialists, and flexible workers such as part-time workers⁴. The proposal created a theoretical rationale to utilize more non-regular workers than before and effectively modified the long-held norm of life-long employment.

Thirdly, several amendments made to labour legislation eased regulations governing non-regular employment. In the last two decades the Government of Japan gradually reduced

The responsibility for opinions expressed in this note rests solely with the author.

¹ Japan shifted from historical cost accounting rules to current value accounting.

² R. Dore: *Shareholder capitalism comes to Japan*, Working Papers in Technology Governance and Economic Dynamics no. 11 (Tallinn, The Other Canon Foundation, 2007).

³ The Japan Institute for Labour Policy and Training (JILPT): *Labor Situation in Japan and Analysis: Detailed Exposition 2005/2006* (Tokyo, JILPT, 2005).

⁴ Japan Federation of Employers’ Associations: *Shinjidai no nibonteki keiei* [Japanese-style management in the new era] (Tokyo, 1995).

Note that the organization and Keidanren (Japan Federation of Economic Organizations) were amalgamated into Nippon Keidanren (Japan Business Federation) in May 2002.

regulations on agency workers and on fixed-term employment contracts. The Labour Dispatch Law of 1985 lifted a traditional ban on labour supply business. At the outset, the law restricted kind of jobs that could be filled by dispatched workers to 13 jobs. The government added 13 more jobs to the list in 1996. In 1999, it fundamentally changed the policy and switched from a positive list of 26 jobs to a negative list of 5 jobs that agency workers cannot fill: port transport, construction, security, medical work, and manufacturing. Further deregulation came in 2004: the limit on worker dispatch periods were extended or removed and manufacturing was removed from the negative list. As for fixed-term contracts, Article 14 of the Labour Standard Law restricted the maximum contract term to be one year. Two amendments in 1998 and 2003 extended the ceiling to three years and to five years for highly skilled workers and workers of age 60 and above.

The result of the changes was a drastic increase in the number of low paying non-regular employment⁵ as shown in table 1. One out of three Japanese employees is a non-regular worker today. Chart 1 illustrates biases in flexible employment by gender and age. This phenomenon is largely explained by the high entry barrier for mothers who wish to obtain a regular employment after a career break for child care. A notable recent trend is the increase in non-regular employment for younger workers (Table 2). Starting their professional life as non-regular workers, those young flexible workers face difficulties in advancing their careers since non-regular workers' access to training is limited, and upward mobility from non-regular to regular jobs⁶ is low in Japan.

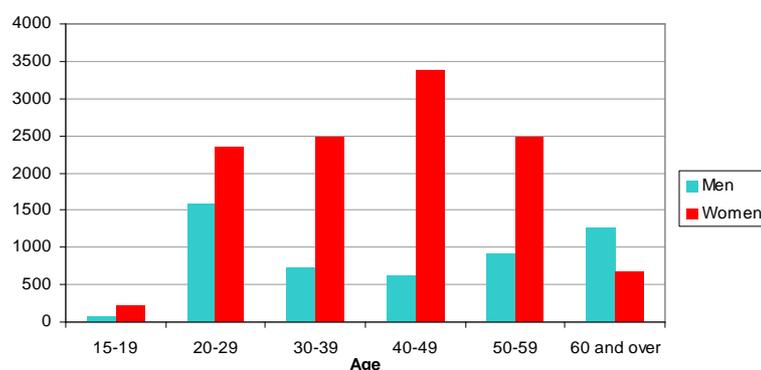
Table 1. Non-regular workers (thousand)

Year	1985	1991	1997	2002	2007
Employee excluding executives (A)	39,990	45,360	49,630	48,910	51,200
Regular employees	33,430	36,390	38,120	34,860	33,930
Non-regular employees (B)	6,550	8,970	11,520	14,060	17,260
(B/A, %)	(16.4%)	(19.8%)	(23.2%)	(28.7%)	(33.7%)
Part-time workers	4,990	7,340	9,450	10,230	11,650
Agency workers	-	-	-	390	1,210
Contract workers and other non-regular workers	1,560	1,630	2,070	3,440	4,400

Source: Labour force survey, Statistic Bureau

Note: Data for 1985, 1991 and 1997 are figures in February. For 2002 and 2007, the data represent the first quarter average.

Chart 1. Distribution of non-regular workers by age and gender (thousand)



Source: General Survey on Diversified Types of Employment 2003, MHLW

⁵ See annex for types of workers and their characteristics. Employment relationship (direct hire or not) with the company for which a worker lends services, contract duration (open-ended or fixed term), mode of salary calculation (monthly or hourly), and working hours (full-time or part-time) help classify workers.

⁶ Only 2.3 per cent of non-regular workers succeeded in finding regular employment in 2007.

Table 2 Share of non-regular workers among youth (excl. executives)

	Men			Women		
	Age 15-24	15-24 (excl. students)	25-34	Age 15-24	15-24 (excl. students)	25-34
1989	20.4%		3.8%	19.9%		24.5%
1997	29.5%		5.1%	34.8%		28.4%
2003	41.1%	26.0%	10.1%	49.8%	38.4%	37.7%
2007	45.6%	29.5%	13.9%	50.2%	37.3%	42.4%

Source: Labour Force Survey, Statistics Bureau
Note: Data for 1989 and 1997 are figures in February. For 2003 and 2007, the data represent the first quarter average.

Note also that various factors such as downward wage pressure and changes in management policy increased outsourcing, replacing direct hire with service contracts since 1990s. Though statistical data on self-employed workers who are economically dependent on a single owner is not available, the Japan Institute for Labour Policy and Training (JILPT) observes an increase in the number of such workers⁷. Similarly, the number of workers hired by contractors is on the rise⁸.

2. Gaps in statistical categories and measurement

As companies increasingly utilize diverse forms of non-regular employment, challenges arose to the current statistical categories and measurement. This section highlights an issue in defining part-time workers and points out two categories of workers yet to be covered by statistics in Japan.

a. Part-time workers

Though part-time workers account for almost a quarter of the employed (excluding executives) in Japan, they are generally classified into one statistical category despite their non-uniform working conditions. In addition, there is no universal standard to define part-time workers. The Organization for Economic Co-operation and Development (OECD) notes three main approaches to define part-time workers⁹:

- i) a classification based on the worker's perception of his/her employment situation;
- ii) a cut-off (generally 30 or 35 hours per week) based on usual working hours, with persons usually working fewer hours being considered part-timers;
- iii) a comparable cut-off based on actual hours worked during the reference week.

In Japan, Ministry of Health, Labour, and Welfare (hereunder MHLW) adopts the second approach with a somewhat unclear cut-off point. It defines part-time workers as workers whose daily hours of work, or weekly days of work are less than those of regular employees, and whose terms of employment exceed one month¹⁰, or have no limitation. Meanwhile, Statistics Bureau of the Ministry of Internal Affairs and Communication takes the first approach with a slight modification. It defines part-time workers (*paato* or *arubaito*¹¹) as those who are called as such at their workplaces. The difference in definition results in two distinct figures for the number of part-time workers. While the employment structure survey by the MHLW counted 12,935 thousand part-time workers

⁷ JILPT: *Diversification of employment types and social and labour market policies*, (Tokyo, Labour policy research report No. 12, 2004).

⁸ Fujimoto, Makoto: "Seisan ukeoi kigyō no keiei to jinnji roumu kanri" [Management and human resources management of subcontractors], in Hiroki, Sato et al. (2004). *Seisan genba ni okeru gaibujinzai no katuyō to jinzai bijinesu* [Using external human resources in production sites and the staffing industry] (Tokyo, The Institute of Social Science at the University of Tokyo, 2004), Research series No. 1, pp. 11-61.

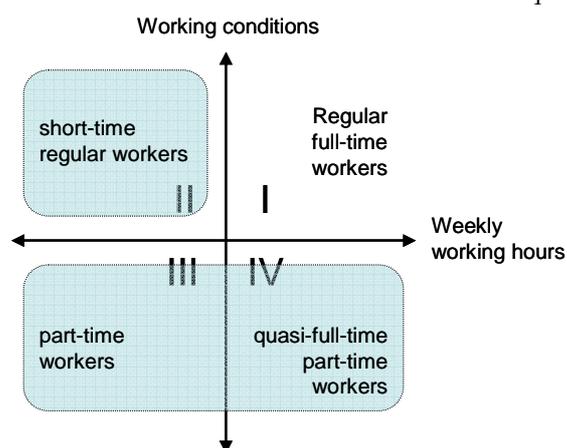
⁹ OECD online database

¹⁰ Workers with a contract less than one month or workers hired on a daily basis fall under the category of temporary workers (*Rinjiteki Koyousha*).

¹¹ Part-time workers in Japan are called *paato* or *arubaito*. There is no clear distinction between the two, yet *arubaito* often refers to a side job held by students.

(of which *paato* 8,855 thousand and *arubaito* 4,080 thousand) in 2007 (yearly average), the labour force survey by the Statistics Bureau figured 11,640 thousand (of which *paato* 8,220 thousand and *arubaito* 3,420 thousand).

Since the Japanese labour market has been segmented between non-regular and regular workers, it appears important to reflect the dualism in statistical categories in order to monitor the gap in working conditions between the two segments. Chart 2 aims to distinguish four types of workers by working hours (the horizontal axis) and working conditions (the vertical axis). The quadrants II and III represent fewer working hours than those of full-time workers. The two quadrants below the abscissa represent less



favourable compensation and benefits given to non-regular workers, reflecting the wide gap in treatment between regular and non-regular workers in Japan.

A problem with using a cut-off approach arises from the fact that as many as 1,355 thousand workers called *paato* or *arubaito* actually worked more than 35 hours a week and more than 250 days a year, which is equivalent to full-time work¹². This paper calls them as “quasi-full-time part-time workers”.

Another problem with using a cut-off approach is that it mixes two types of

Chart 2. Typology of part-time workers

workers with different entitlements to and levels of compensation and benefits: regular employees with reduced working hours (this paper names them as “short-time regular workers”) due to care activities or other reasons, and non-regular workers whose working hours fall below the cut-off point. In fact, 2,163 thousand (or 6.3 per cent of) regular employees worked less than 200 days, and 976 thousand worked more than 250 days but less than 35 hours a week in 2007. Mixing wage data of these “short-time regular workers” with that of non-regular part-time workers, for example, clearly dilutes statistics about the non-regular workers, and fails to serve the purpose of monitoring the wage gap between regular and non-regular workers.

A classification based on the worker’s perception or appellation also suffers from data incomparability when it comes to cross-national comparison. I illustrate this point by taking Dutch and Japanese part-time workers as an example. The Working Time Adjustment Law of 1999 awarded Dutch workers the right to adjust their working time. When Dutch workers reduce their hours of work, their salary and benefits are calculated on pro-rata basis. Thus a wage comparison between these Dutch part-time workers (workers in the quadrant II of the chart 2) and Japanese workers who are called *paato* or *arubaito* (workers in the quadrant III and IV of the chart 2) does not yield an apple-to-apple comparison. How is Japanese part-time workers’ wage in comparison to part-time workers in other countries? This question stirs the issue of statistical definition and the severe labour market segmentation in Japan.

b. Economically dependant self-employed workers

A category of workers that statistics in Japan has yet to cover is economically dependant self-employed workers, workers that are self-employed but dependent on a single owner

¹² Basic Survey on Employment Structure 2007, Statistic Bureau

for their income. In some cases, “employers” evade social security contributions and other legal obligations stipulated in the labour protection legislation by cloaking a true employment relationship under the guise of a service contract. The 86th (1998) and the 91st (2003) sessions of International Labour Conference took up this issue, and the ILO adopted the Employment Relationship Recommendation (R198) in 2006, calling for member states to combat disguised employment relationships.

The total number of self-employed in Japan has been decreasing due largely to a decline in the traditional self-employment; however, JILPT believes there is an increasing trend of economically dependent self-employment based on its survey on outsourcing. No official statistic is available on the new form of self-employment. Estimates of the number of contract-based workers range from 500 thousand to two million, and some of these workers are believed to work for a single company. Protection for such workers has been a topic of debate among researchers in Japan. For policymaking purposes, it is important that official statistics cover the trend and the working conditions of economically dependant self-employed workers.

c. Workers employed by contractors (a triangular employment relationship)

Another new trend in the Japanese labour market is an increase in triangular employment relationships, cases where the employer of workers and the company that benefit from the labour of the workers (a user company) are different. Agency workers constitute a typical case of this triangular employment relationship. The labour force survey added a category of “dispatched worker from temporary labour agency” in 1999. Another type of a triangular employment relationship occurs when a contractor employs workers¹³ and sends them to the user company’s premises. The manufacturing sector has increasingly outsourced part of the production process since the latter half of the 1990s¹⁴. The number of workers employed by contractors totalled 1,731 thousand in 2004, according to a survey conducted by MHLW. Since the number of workers hired by contractors has reached a substantial mass, it seems necessary that official statistics capture the trend, and the working conditions of this type of worker on a regular basis.

3. Categories and measurements for broader application

As illustrated in the previous section, statistical definition and use of data on part-time workers requires caution. Japanese part-time workers, though they are often bundled together, fall into three categories: short-time regular workers, non-regular part-time workers, and quasi-full-time part time workers. Depending on the purpose of data use, the distinction among the three types may be of high importance. Users of statistics thus need to take care in verifying the definition of part-time workers.

Two categories of workers, namely economically dependant workers and workers employed by contractors, are missing categories in Japanese labour statistics. Though an ad-hoc survey captured basic information on workers employed by contractors, little is known about the self-employed who are dependant on a single owner. Since these types of workers constitute a significant share of the workforce, and especially since their working conditions and applicable labour protection are inferior to those of comparable regular employees, there is an urgent need to monitor the trends and working conditions of these workers.

¹³ Note that the dividing line between agency workers and workers under a contractor is that the former works under the guidance of the user company. In some cases, this distinction became obscure and contractors operated in practice as an illegal labour supplier.

¹⁴ Fujimoto : *ibid.*

Annex: Types of workers and contractual arrangements

Types of workers	Description	Direct hire by the user company	Contract duration	Salary / wage	Working hours
Regular					
Regular worker (<i>Seishain</i>)	Employee whose term of employment is not fixed, excluding part-timers, workers on loan, etc.	Yes	Open	Monthly	Full-time (short-time)
Workers on loan (<i>Shukkou shain</i>)	Employee sent to another company based on a temporary transfer contract from a parent or related company. Transferred workers are regular workers of the sending company.	No (direct hire by the company of origin)	Open (the period of loan may be fixed)	Monthly	Full-time
Non-regular worker (Hi-Seishain)					
Employee/worker other than regular employees					
Contract workers					
Contract workers (<i>Keiyaku shain</i>)	Workers with a fixed contract. Contract workers usually are engaged for their special skills for a fixed amount of time.	Yes	Fixed	Monthly	Full-time
Contract workers (<i>Shokutaku shain</i>)	Workers re-employed after retirement by a fixed contract.	Yes	Fixed	Monthly	Part-time
Workers under contractors (<i>Ukeoi roudousha</i>)	Workers (often young workers) hired by a subcontractor and work at the user companies' premises under the instruction of the subcontractor. This types of workers are often in the manufacturing sector.	No (hired by a subcontractor, though they work for the benefit of the user company at user company's premises)	Fixed	Hourly	Full-time
Dispatched workers (<i>Haken Roudousha</i>)					
Registered dispatched workers	“Registered dispatched workers” are enrolled on a job agency’s available staff list but not on the agency’s payroll	No (hired by the agency, but work under the direction of the user company)	Open/Fixed	Hourly	Full-time / part-time
Hired dispatched workers	“Hired dispatched workers” are employed by a job agency and are dispatched into other companies.		Fixed	Monthly / annual	Full-time
Temporary workers (<i>Rinjuteki Koyousha</i>)	Worker with a contract less than one month or worker hired on a daily basis.	Yes	Fixed	Daily / hourly	Full-time
Part-time workers (<i>Paato, Arubaito</i>)					
Part-time workers	Worker whose daily hours of work, or weekly days of work are less than those of regular employees.	Yes	Open / Fixed	Hourly	Part-time
Quassi-full-time part-time workers	Workers who are called 'paato' or 'arubaito' at their work places and treated as such, but work almost as many hours and days as full-time workers	Yes	Open / Fixed	Hourly	Full-time
Other	Workers other than above				

Note: The descriptions are based on definitions given by the Ministry of Health, Labour, and Welfare and the Statistics Bureau. Modified by the author. Contractual arrangements for each type of workers shown in this table represent the most common ones.