

Chapter 3 Issues concerning working life

Section 1 Changes in working life

As employment types have diversified, the proportion of non-regular employment has grown. There has been a particularly substantial rise in the proportion of young people in non-regular employment since the mid-1990s, leading to a rise in the proportion of workers on low incomes and a rise in the income gap among the young.

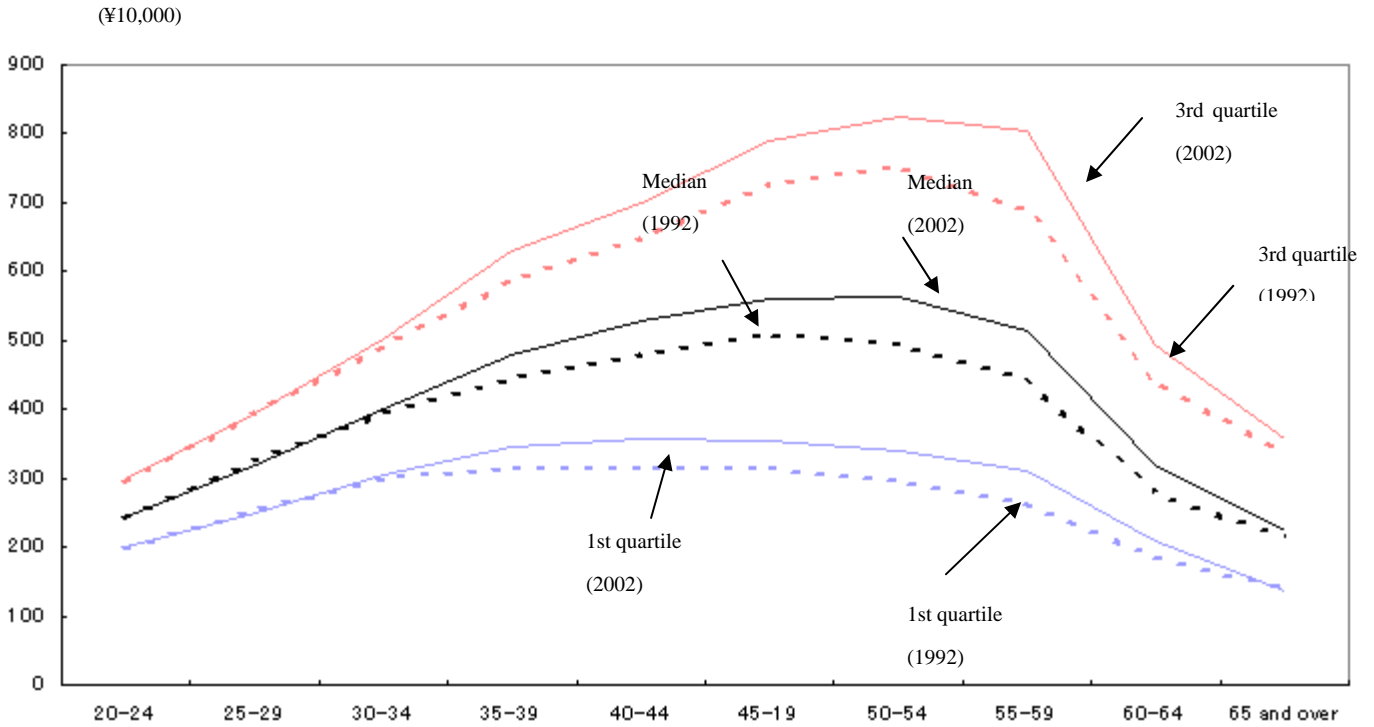
Regarding trends in the disparity in incomes in Japanese society as a whole, the statistical indicators of an income gap are rising owing to population aging (due to the larger income gap among elderly households) and the rise in the number of small households (which widens the income gap due to the consequent rise in the number of households on small incomes). If the effects of aging and declining household size are excluded, however, no clear widening of the income gap between households is observable. Furthermore, although the proportion of low-income workers is increasing among the young, this does not appear to be leading directly to a rise in the income gap at the household level owing in large part to the fact that many of young people on low incomes are co-residing with their parents. However, as there are insufficient opportunities to develop vocational skills in non-regular forms of employment in comparison with regular employment, and it is also more difficult to acquire vocational skills in non-regular jobs, there are concerns that the income gap could widen and become entrenched when these young people leave home to form their own independent households. Despite recent signs of improvement, such as a decline in the number of freeters, it is important that the trend toward regular employment of the young be promoted as the economy continues to recover, and that the income gap not be allowed to become entrenched by encouraging the vocational independence of the young.

Trends in annual incomes of employees suggests large rise among higher income earners

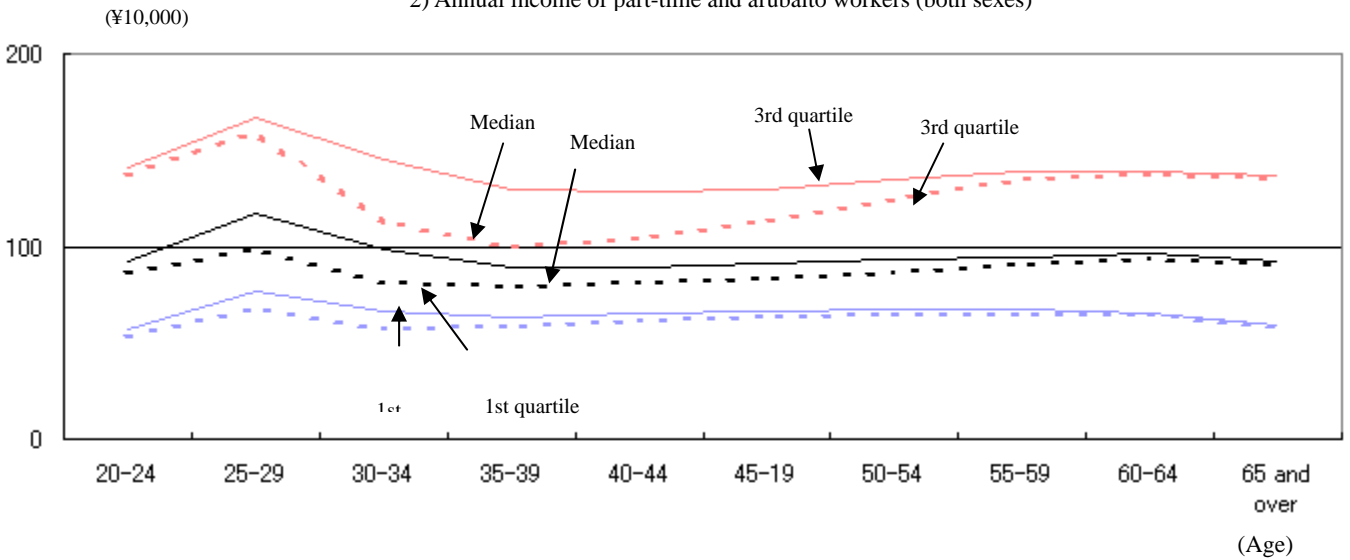
Looking at changes in annual income by type of employment, it can be seen that the annual incomes of regular employees on higher incomes (third quartile) are increasing in all age groups, with particularly substantial increases among 40- to 49-year-olds and 50- to 59-year-olds. Among those on lower incomes (first quartile), on the other hand, incomes are generally improving, but have declined somewhat among 25- to 29- year-olds and those aged 65 or over. Regarding part-time and *arubaito* work, which are the employment types providing the lowest annual incomes, the trend since the mid-1990s has not seen a decline in any age group in the incomes of those on lower incomes (Figure 29).

Figure 29 Distribution of annual incomes by type of employment

1) Annual income in regular employment (both sexes)



2) Annual income of part-time and arubaito workers (both sexes)



Source: Estimated by the Office of Counselor for Labor Policy, the Ministry of Health, Labour and Welfare, based on "Employment Status Survey" by the Statistics Bureau of the Ministry of Internal Affairs and Communications.

Notes: 1. Estimated based on the linear complementarity method based on the number of employees by annual income group.
 2. The first quartile is the annual income of persons on the first point from the bottom when the data are arranged in order from low to high and divided into four equal parts, the median is the annual income of persons on the second point, and the third quartile is the annual income of persons on the third point.

Widening wage differential among 30- to 49-year-old male full-time workers

If we look at the wage distribution of full-time workers, we discover a widening wage differential, particularly among 30- to 49-year-old male workers (Figure 30). This is thought to be due to the widening use of performance and results-based wage systems, and this tendency increases with educational level. The wage differential between persons of different educational levels is also widening. As the industrial structure grows more advanced, the knowledge and skills required in the workplace also become more sophisticated, and this is paralleled by a widening wage differential along educational lines as well.

Figure 30 Decile dispersion coefficient of wages of general workers by sex and age group

Age Sex and year	20-24	25-29	30-34	35-39	40-44	45-49	50-54	55-59
(Male workers)								
1990-1994	0.24	0.27	0.31	0.36	0.41	0.47	0.55	0.59
1995-1999	0.22	0.26	0.31	0.36	0.41	0.46	0.52	0.57
2000-2004	0.22	0.26	0.32	0.37	0.43	0.48	0.53	0.57
2005	0.24	0.28	0.33	0.39	0.46	0.51	0.54	0.58
(Female workers)								
1990-1994	0.21	0.27	0.40	0.51	0.59	0.64	0.63	0.65
1995-1999	0.22	0.26	0.36	0.47	0.56	0.60	0.62	0.60
2000-2004	0.23	0.27	0.35	0.45	0.54	0.60	0.61	0.62
2005	0.25	0.30	0.37	0.45	0.57	0.63	0.67	0.65

Source: Estimated by the Office of Counselor for Labour Policy, the Ministry of Health, Labour and Welfare, based on "Basic Survey on Wage Structure" by the Ministry of Health, Labour and Welfare.

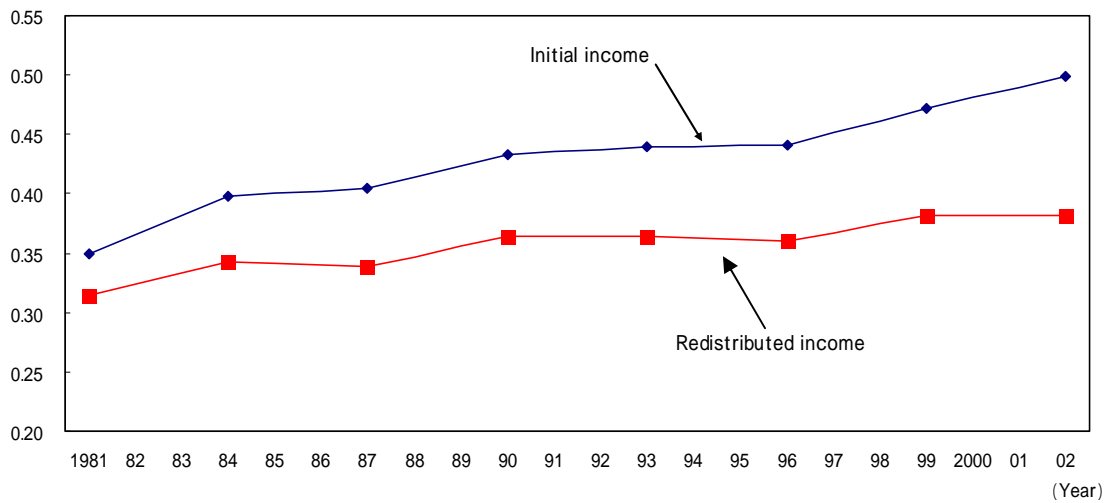
- Notes:
1. The coefficients are the simple averages for each five years and the value for 2005.
 2. Decile dispersion coefficient = (9th decile – 1st decile) / median / 2

No clear widening of the income gap between households

Wage statistics show that while the wage differential is widening among some categories of workers and age groups, this is not translating immediately into a widening income gap at the household level.

The Gini coefficient based on initial income rose moderately from the 1980s. However, it is necessary to bear in mind the changes in social structure during this time, such as the rise in number of elderly households and small households, which exhibit a greater income gap. If these factors are taken into account, there is not at the present stage any clear evidence of a widening of the income gap. Furthermore, the Gini coefficient based on redistributed income declined between 1999 and 2002 (Figure 31).

Figure 31 Trend in Gini coefficient



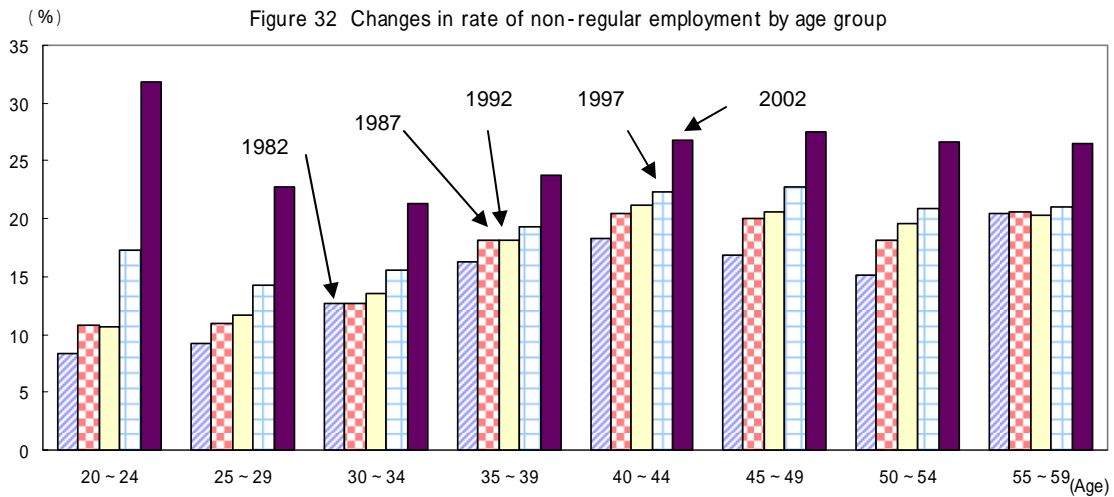
Source: "Income Redistribution Survey" by the Ministry of Health, Labour and Welfare.

Concerns over future widening of income gap with increase in non-regular employment among the young

Breaking down changes in the non-regular employment rate by age group, there was a particularly considerable rise in the rate among 20- to 24-year-olds throughout the 1990s (Figure 32).

If we look at the proportion of employees in each income group in the 20- to 29-year-old group, we find that the proportion on low incomes of under ¥1.5 million is increasing, and the proportion on incomes of at least ¥5 million is also increasing. The income gap thus appears to be widening (Figure 33).

Because few young people on low incomes form independent households, often preferring instead to co-reside with their parents, this growing income gap is not presently translating into an obvious widening of the income gap at the household level. However, due to the gap in opportunities to develop vocational skills between regular and non-regular employment and the difficulty of acquiring vocational skills in non-regular jobs, there are concerns that the income gap could widen and become entrenched when these young people leave home to form their own independent households. Although the situation appears to have improved recently, as evidenced by a decline in the number of freeters, it is still important to encourage young people's movement into regular employment as the economy continues to recover, and to avoid the gap becoming entrenched by encouraging greater vocational independence among the young.



Source: Estimated by the Office of Counselor for Labour Policy, the Ministry of Health, Labour and Welfare, based on "Employment Status Survey" by the Statistics Bureau of the Ministry of Internal Affairs and Communications.

Note: The rate of non-regular employment is the proportion of non-regular employees among employees, Excluding students.



Source: "Employment Status Survey" by the Statistics Bureau of the Ministry of Internal Affairs and Communications.

Changes in consumer behaviour according to class and future concerns

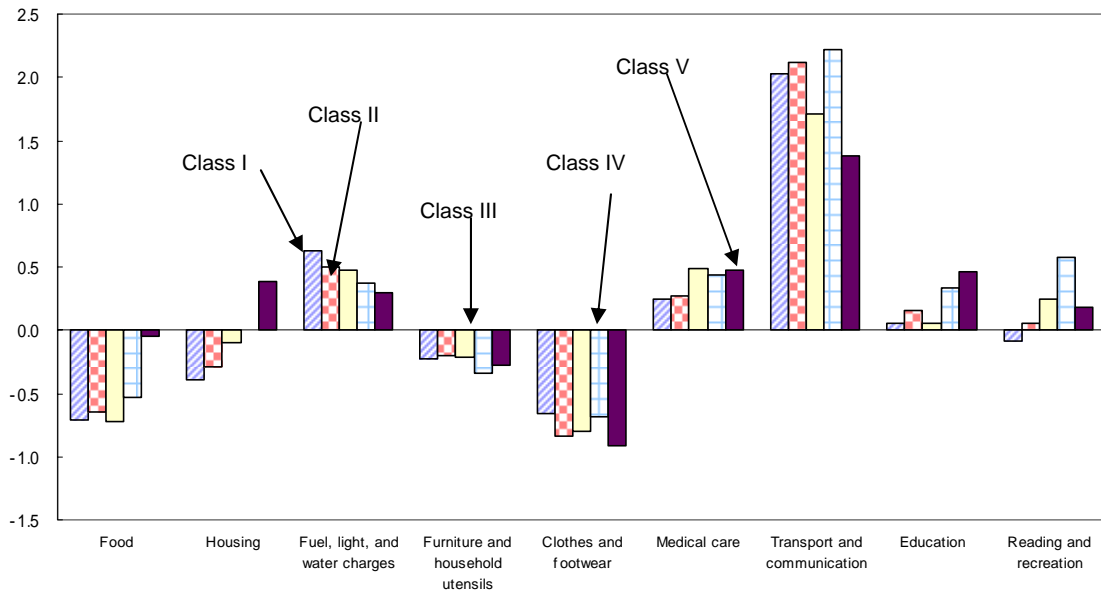
Although there does not at present appear to be any clear widening of the income gap in Japanese society, attention needs to be paid to the emerging differences in consumer behaviour according to income class.

If we examine what areas of consumer spending are increasing by looking at changes in the composition of consumption in each of five annual income groups, we discover large increases in transport and communication spending in all income groups, and considerably higher spending on

fuel, light, and water charges among lower income groups. On the other hand, spending on education is much higher in higher income groups, and spending on medical care exhibits a similar trend (Figure 34). If we calculate the average rate of change in each component of consumer spending in 2001-2005 compared with the previous period (average for 1996-2000), we discover conspicuous growth in transport and communication spending in the low-income classes I and II, and only in the high-income class V has housing and education spending increased.

Although long-term planned spending on the future, such as education, is increasing among high-income groups, the increase in transport and communication spending and spending on fuel, light, and water charges among lower income groups raises the spectre of reduced financial means to supporting oneself in the future among lower income earners. The rise in average propensity to consume is also greater among lower income groups, leading to concern that the proportion of households with savings will decline.

Figure 34 Percentage point difference by component of consumption (2001-2005 averages)



"Family Income and Expenditure Survey" (workers' households of two or more persons (excluding agricultural, forestry, and fishery households)) by the Statistics Bureau of the Ministry of Internal Affairs and Communications.

Source:

- Notes:
1. Percentage point difference in proportion of living expenditures by component of consumption as a proportion of total living expenditures.
 2. The percentage point difference is the average percentage point difference in 2001-2005 compared with the average for 1996-2000.

Section 2 Opportunities for the young to find work and develop their vocational skills

Looking at the present state of employment opportunities for the young, the recovery of the economy has expanded the range of choice open to new graduates seeking regular employment. For the young people who entered non-regular employment during the “employment ice age” after the collapse of the bubble economy when enterprises were limiting new hiring, however, it remains difficult to make the transition to regular employment. There are also many people who remain in unstable employment, going from one part-time or *arubaito* job to another, and these people are gradually growing older. These “long-time freeters” tend to remain as such, and the number of so-called NEETs lacking in the desire to find work has also remained high in recent years.

As the situation stands at present, people who enter non-regular employment, such as part-time or *arubaito* jobs, straight after graduating from school do not find it easy to change to regular employment, and they also have relatively fewer opportunities to develop their vocational skills. Moreover, their wages increase little even if they remain with the same employer, the job separation rate is relatively high, and income levels are low. Young people in non-regular employment consequently find it difficult to become independent from their parents. The rate of co-residence with parents is high, and the marriage rate, too, is low. As well as further accelerating the downward trend in the birth rate, the relatively high proportion of persons who are not enrolled in a public pension plan means that many are inadequately prepared for unforeseen incidents in their daily lives or for old age.

By using young people as non-regular employees on short employment contracts, enterprises have been able to hold down costs and flexibly provide products and services. However, this kind of business behaviour appears lacking in long-termism and sustainability, and is unsuited to achieving sustained increases in vocational skills through the training and development of young people. Workers’ vocational abilities are improved through the acquisition, one by one, of skills and techniques as they accumulate job experience, and the planned hiring and development of new graduates means the hiring, development, and accumulation of human resources by each enterprise. In order for Japanese society, with its declining population, to achieve sustained economic growth, it is important that society as a whole accumulates skilled human resources based on the hiring and development of human resources by enterprises from a long-term and sustainable perspective.

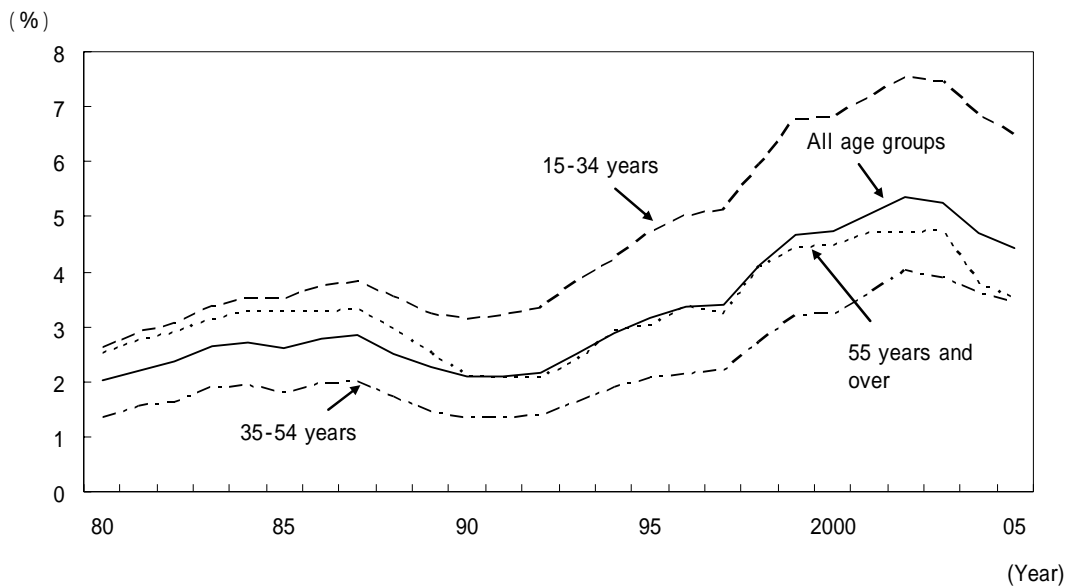
Deterioration of unemployment rate mainly among the young

A breakdown by age of the unemployment rate since the 1980s reveals unemployment to have been comparatively low among 35- to 54-year-olds. Growth in unemployment rate among those aged 55 and over was also more limited than among other age groups, and by 2005 had fallen to virtually the same level as the rate for 35- to 54-year-olds.

The unemployment rate for young people (15- to 34-year-olds), on the other hand, remains relatively high (Figure 35). This provides some indication of the rapid decline in employment opportunities for the young since the mid-1990s.

The “quality” of employment opportunities for the young is also an issue, as evidenced by still high numbers of freeters and the marked rise in the rate of non-regular employment.

Figure 35 Trends in unemployment rates by age group



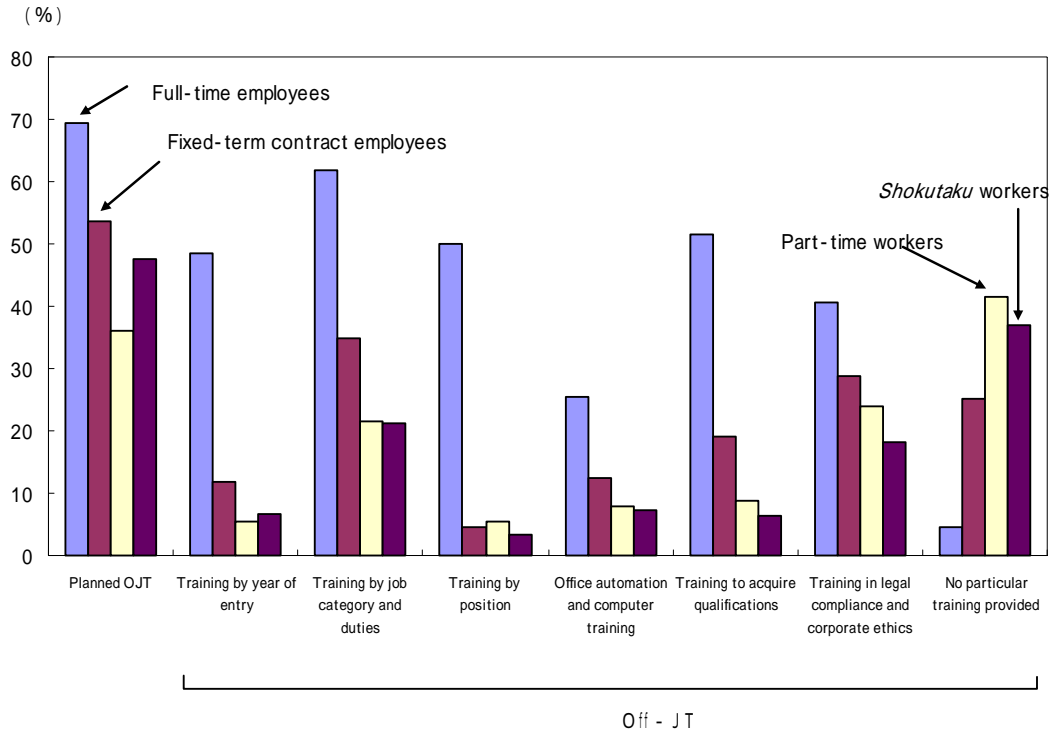
Source: "Labor Force Survey" by the Statistics Bureau of the Ministry of Internal Affairs and Communications.

Poor opportunities for non-regular workers to develop vocational skills

An examination of what actions is taken by business establishments to develop workers’ vocational skills by type of employment shows that development opportunities are provided principally for full-time employees. Among non-full-time employees, fixed-term contract employees have comparatively more opportunities to develop their vocational skills, but the gap compared with full-time employees is large in the case of other types of employment.

Enterprises are thus focusing mainly on developing the vocational skills of the full-time employees who are their core workers (Figure 36).

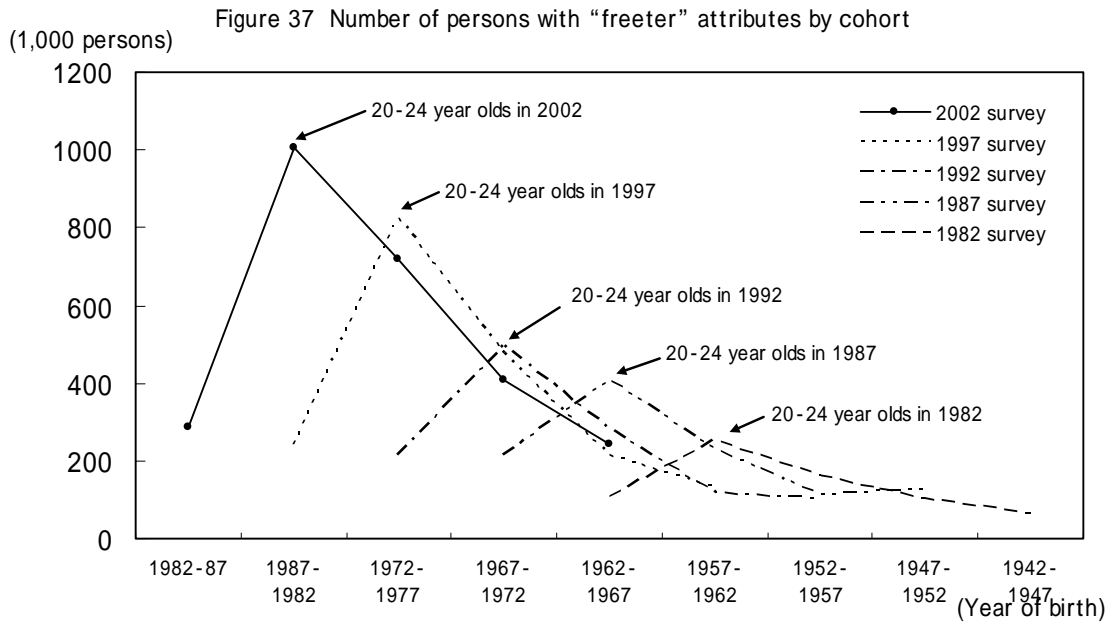
Figure 36 Proportion of establishments providing training



Source: "A Survey of Personnel Strategies and Worker Opinion Amid Diversifying Forms of Employment" (establishment survey, 2005) by the Japan Institute for Labour Policy and Training.
 Note: Proportion of all establishments excluding "not applicables" and non-responses.

Tendency for young people in unstable jobs to remain in unstable employment

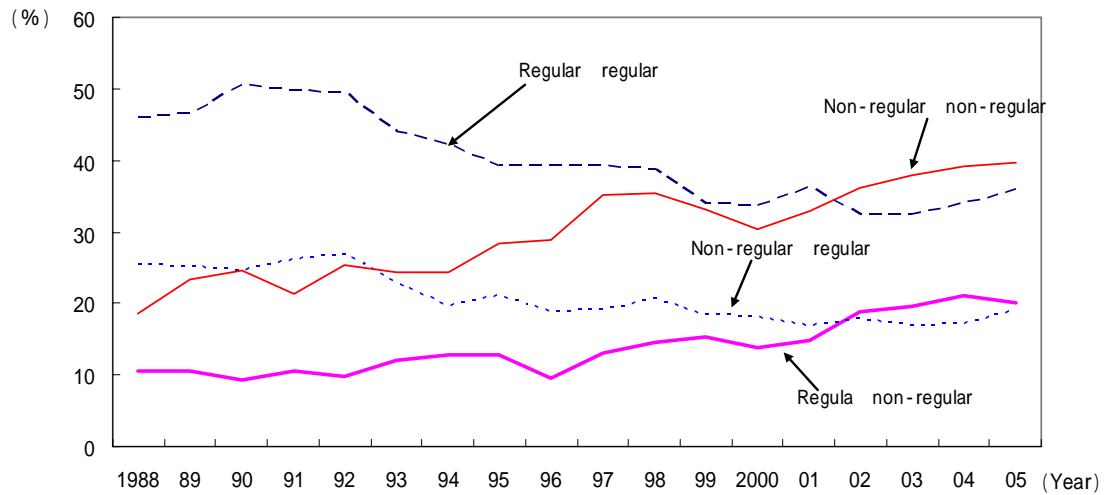
Using the *Employment Status Survey* produced by the Statistics Bureau of the Ministry of Internal Affairs and Communications to determine the number of unmarried graduates in or seeking part-time or *arubaito* employment (described below as "persons with 'freeter' attributes") in each age group in order to determine the cohort changes from each year's survey, we find that in all years the most persons with "freeter" attributes can be found in the 20- to 24-year-old age group, but that with the exception of the period from 1987 to 1992 spanning the economic bubble, their number has not fallen much with the passage of time even though they have now entered older age groups (Figure 37). Taken together with the fact that the proportion of persons formerly employed on a non-regular basis who enter regular employment is small, we may surmise that considerable numbers of people remain in unstable employment over time, moving from one part-time or *arubaito* job to another (Figure 38).



Source: Estimated by the Office of Counselor for Labour Policy, the Ministry of Health, Labour and Welfare, based on "Employment Status Survey" by the Ministry of Internal Affairs and Communications.

Note: Persons with the attributes of "freeters" are unmarried graduates in or seeking part-time or *arubaito* employment.

Figure 38 Proportion of job leavers who became employees by type of employment (15-34 year olds excluding persons enrolled in education)



Sources: Estimated by the Office of Counselor for Labour Policy, the Ministry of Health, Labour and Welfare, based on "Special Survey of the Labor Force Survey" (February) for 1998-2001, and "Labor Force Survey (Detailed Tabulation)" for 2002-2004 by the Statistics Bureau of the Ministry of Internal Affairs and Communications.

Note: Job leavers are defined as persons who left their jobs within the preceding one-year period.

Young persons in unstable employment tend to remain with their parents and not marry

If we break 15- to 34-year-old unmarried graduate employees down into three groups—regular employees, non-regular employees, and persons with “freeter” attributes—and compare the proportions who are a “child of the household head,” we discover the proportions to be highest among non-regular employees and persons with “freeter” attributes (Figure 39). This is assumed to be due to the lower incomes of non-regular employees and persons with “freeter” attributes compared with regular employees, which makes it harder for them to form independent households and encourages them to live with their parents.

Looking at the proportion of workers who are married broken down by type of employment, the proportion of married non-regular employees is around half that of regular employees, and the proportion of married persons declines further if persons in or seeking part-time or *arubaito* employment are combined (Figure 40).

The principal cause of the decline in Japan’s total fertility rate is the decline in the marriage rate among the young, and the continuation in unstable employment of the young freeter class is one factor accelerating the decline in the birth rate through its impact on reducing the ability of members of this class to start families.

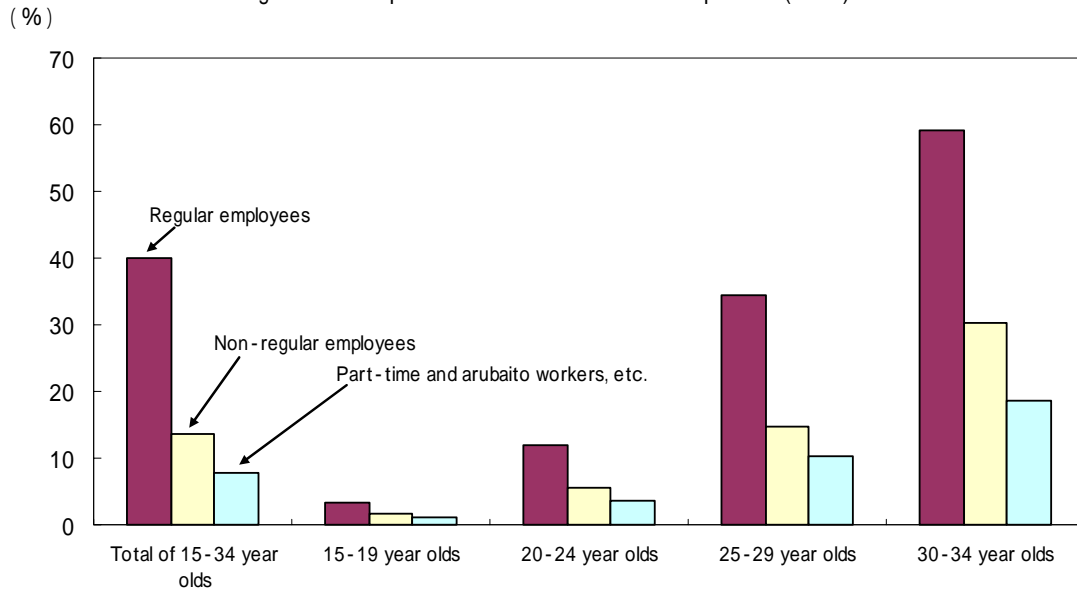
Figure 39 Proportion of workers who coreside with a household head who is their parent (2002)



Source: Estimated by the Office of Counselor for Labour Policy, the Ministry of Health, Labour and Welfare, based on "Employment Status Survey" by the Statistics Bureau of the Ministry of Internal Affairs and Communications.

Note: Unmarried persons only, excluding persons enrolled in education.

Figure 40 Proportion of male workers with spouses (2002)



Source: Estimated by the Office of Counselor for Labour Policy, the Ministry of Health, Labour and Welfare, based on "Employment Status Survey" by the Statistics Bureau of the Ministry of Internal Affairs and Communications.

Note: Excluding persons enrolled in education.

Action to promote young people's movement into regular employment

In order to raise occupational awareness among the young and promote positive measures to develop their vocational skills, action is needed to open the door to regular employment to freeters and non-regular employees, too, and there is a particular need to take more finely-tuned action to assist the "long-time freeters" who had no good employment opportunities during the "employment ice age."

In order to encourage enterprises to be positive about hiring regular employees, it is important to create mechanisms that provide appropriate incentives to enterprises that take steps to move young workers into regular employment. In order to rectify the situation that makes non-regular employment excessively more advantageous for businesses than regular employment, measures, including development of related legislation, need to be strengthened and support provided for action by enterprises to ensure balanced treatment of different types of employee.

Another important precondition for encouraging the development of vocational skills and promoting employment is the attainment of economic and social stability through economic management from a long-term perspective so as to curb future unemployment and avoid sustained deflation.

Section 3 Employment systems and working life

Workers' vocational abilities are built up through the long-term and continuous accumulation of work experience, and enterprises' employment policies and behaviour exert a major impact on the formation of workers' vocational skills.

As far as full-time employment is concerned, there appears to be no fundamental change in the practice of long-term employment of workers. Amid the deterioration in the macro-economic environment and growing need to adjust employment following the collapse of the bubble, many enterprises sought to maintain long-term employment as far as possible. Employment adjustment was consequently achieved by focusing on limiting new hiring, resulting in an increase in unemployment among the young and the simultaneous formation of a class of workers in unstable employment, such as freeters. With the recovery of the economy, there have at last emerged signs of a rise in hiring of new graduates. Most enterprises are adhering to a policy of periodic hiring and planned training of new graduates, and provided that the recovery continues and enterprises become more confident about the future, the door to regular employment is likely to open further.

Regarding the impact of changes in wage systems in recent years on the wage structure, improvements in skills evaluation systems based on performance and results have tended to maintain the wage curve for males up to the mid-forties. However, a more detailed breakdown reveals a widening wage differential in the 30- to 49-year-old age group, indicating that the "Japanese employment system" based on managing personnel as a group on the basis of formal factors, such as length of service and age, is transforming into a more individualized system in which wages reflect the abilities of individual workers.

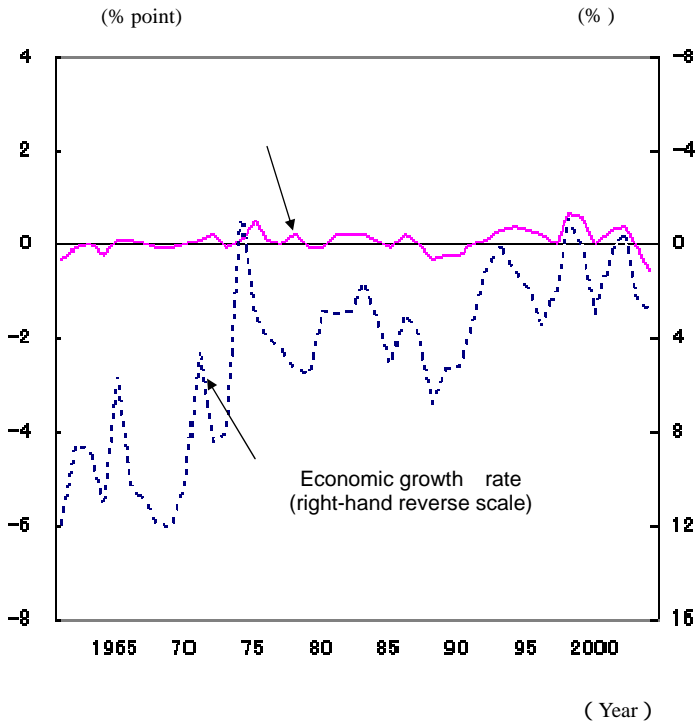
Employment behaviour of Japanese enterprises seeking to maintain employment

An examination of the relationship between the unemployment rate and economic growth rate in major industrialized countries with large populations shows that depressed growth increases unemployment. However, the extent to which the unemployment rate deteriorates varies according to country (Figure 41). In the U.S. and U.K., the unemployment rate rises sharply when economic growth enters a downturn, in France the variation in the unemployment rate is small, and in Japan the variation is even smaller. This indicates that there is a greater tendency in Japan than in other countries to respond to a slump in economic growth by seeking to limit growth in unemployment. Enterprises have a strong propensity to strive to maintain employment, and in the event that workers do have to be terminated, consideration appears to be given to terminating those workers who have less need to continue working or who can join the non-labor force population.

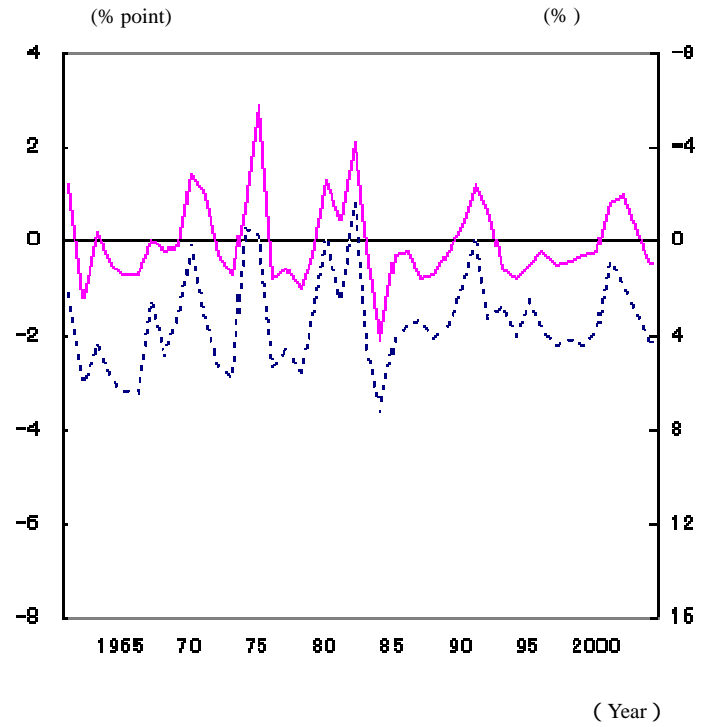
Japanese enterprises are basically maintaining a policy of long-term employment based on the periodic hiring and training of new graduates, and provided that the economy continues to improve, it is hoped that the door to hiring will open wider.

Figure 41 International comparison of unemployment and economic growth rates

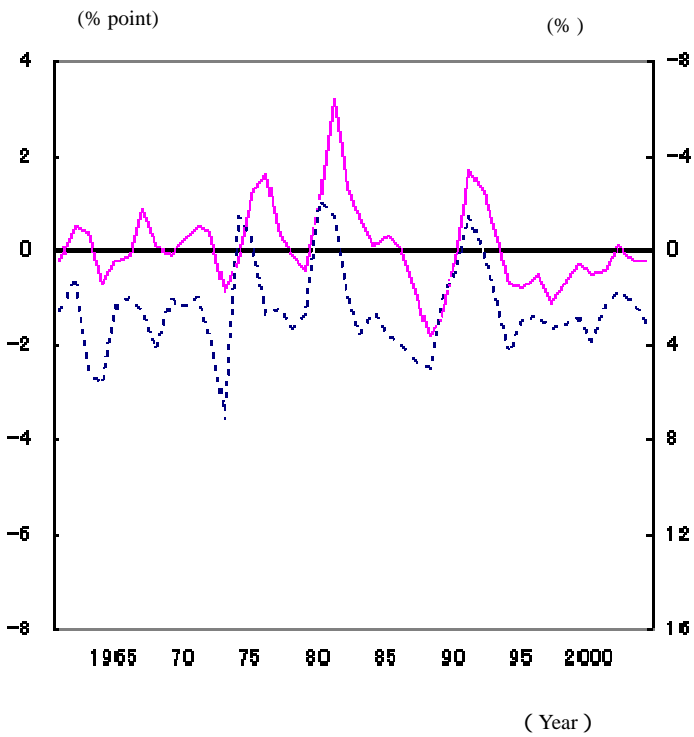
1) Japan



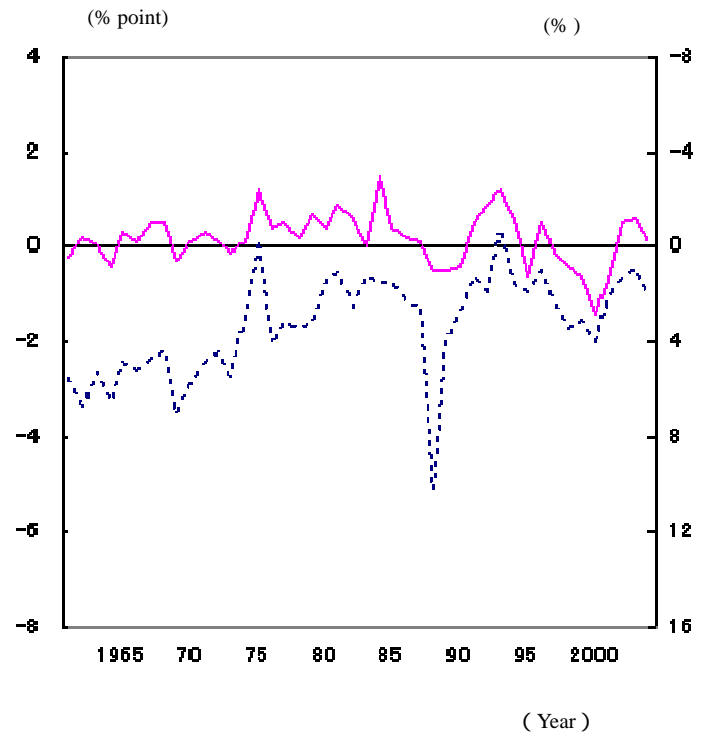
2) U.S.



3) U.K.



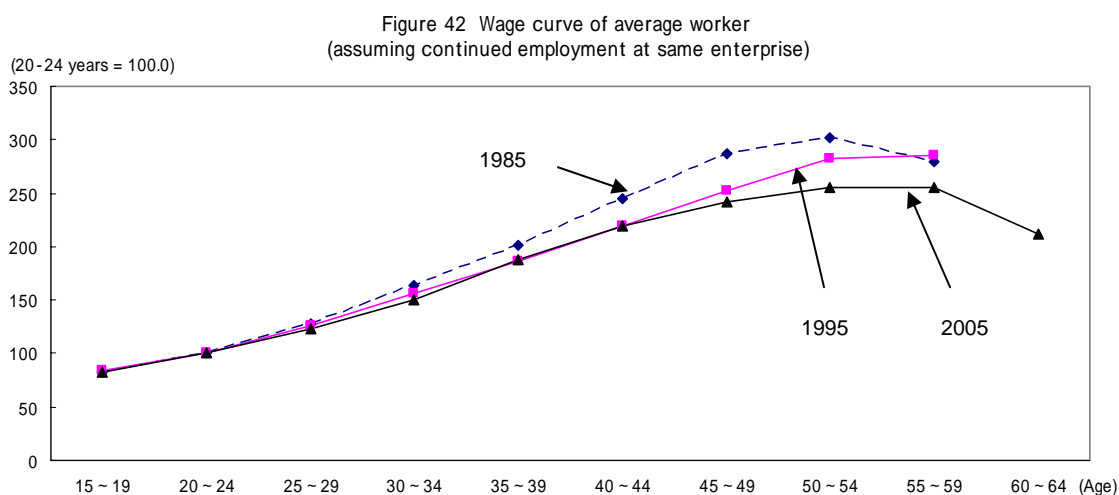
4) France



Source: Compiled by the Office of Counselor for Labour Policy, the Ministry of Health, Labour and Welfare, based on "World Economic Trends, Spring 2005" by Cabinet Office.

Wage systems for regular employees tend to stress length of service

Looking at the wage structure of the typical worker, the wage curve tended to flatten overall up to the mid-1990s. Thereafter, however, there occurred no flattening in the case of workers aged up to 45, and the wages of those aged 45 and over are suppressed (Figure 42).



Source: Estimated by the Office of Counselor for Labour Policy, the Ministry of Health, Labour and Welfare, based on "Basic Survey on Wage Structure" by the Ministry of Health, Labour and Welfare.

Notes: 1. Figures are for male workers in all industries.
2. All educational levels weighted according to the proportion of junior high school, senior high school, higher advanced professional school/junior college, and university graduates.

Improvement of skills evaluation systems encourages continued service with the same enterprise

The improvement of skills evaluation systems based on performance and results has generated a tendency to maintain the wage curve up to the mid-forties. The improvement of such systems results in the accurate assessment of improvements in vocational ability with the continuation in employment of workers, and as a result increases the stress placed on length of service in the wage structure. This is also a reflection of the fact that closely coordinated management of hiring, assignment, training, and compensation of human resources gives value to workers' continuous service, and this is correspondingly valued in the wage system.

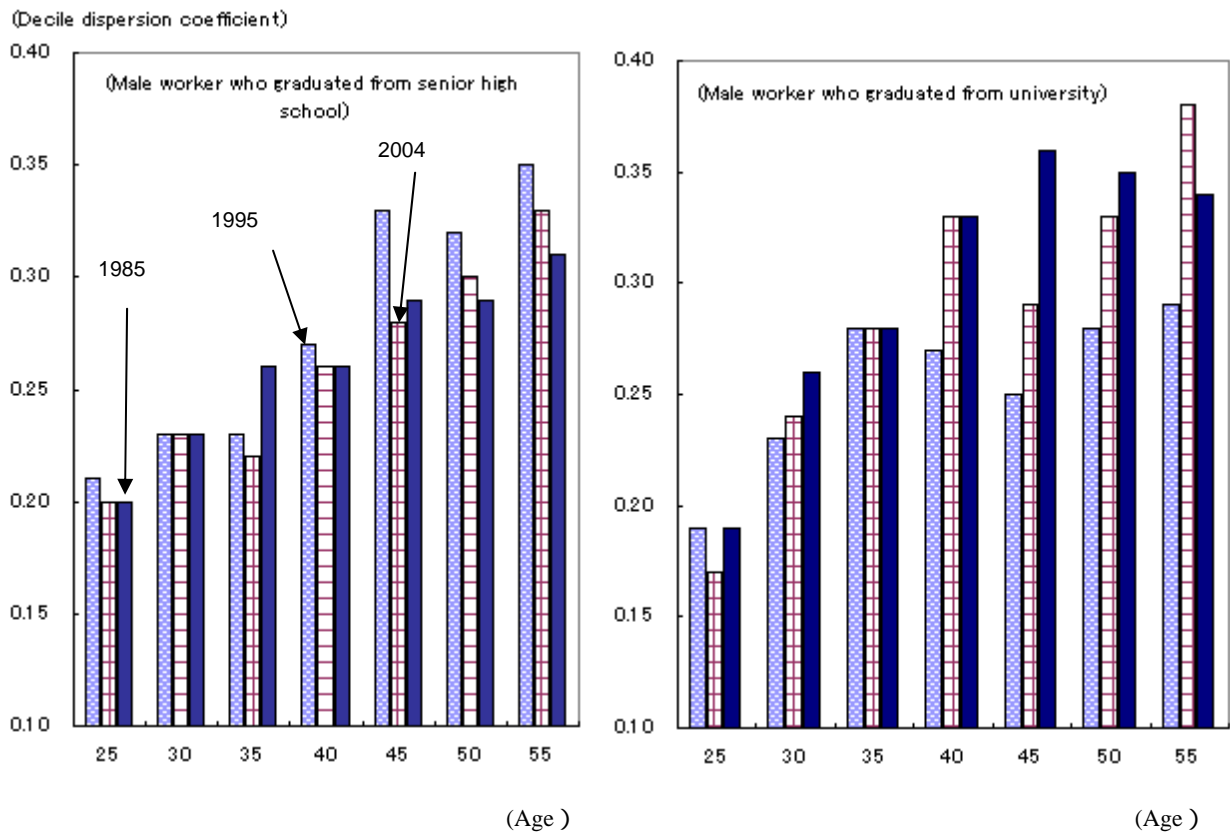
Widening wage differential among mainly highly educated white-collar workers

The wage curve, which depicts the average value of wages in each age class, shows there to be hardly any change in age groups younger than the mid-forties. In terms of wage distribution, however, there is a widening wage differential among 30- to 49-year-olds. Educationally, this

differential is widening among university graduates, and occupationally, it is widening among managerial, clerical, and technical workers (Figure 43). This is ascribed to the fact that the growth in knowledge work as the industrial structure becomes more advanced renders conventional collectivist wage systems increasingly unsuited to meeting workers' desires, leading to the spread of performance and results-based pay systems among mainly highly educated white collar workers that are giving rise to a widening wage differential.

The widening trend in the wage differential also contributes significantly to increasing workers' motivation. An examination of the relationship between the expansion of the differential and motivation toward work from the point of view of workers' attitudes by occupation reveals a higher proportion of workers reporting an increase in motivation in occupations in which there has been observed a widening differential. In managerial and marketing/sales work in particular, large proportions of respondents answered that the differential is growing, and a high proportion said that their motivation had also increased. High proportions of managerial and sales workers consider individual performance to be an important determinant of wages, and in this sense performance and results-based wage systems can be regarded as responding to the desires of workers who want performance that can be attributed to the work of the individual to be objectively assessed (Figure 44).

Figure 43 Wage differential for average worker assuming continued employment at same

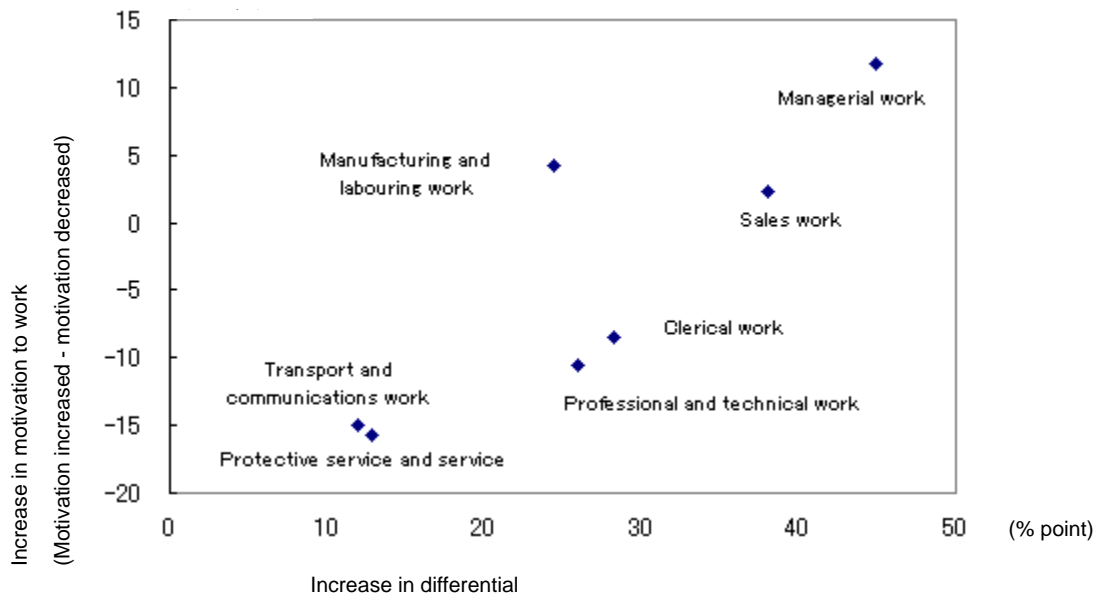


Source: "Basic Survey on Wage Structure" by the Ministry of Health, Labour and Welfare.

Notes: 1. Data are for all industries surveyed.

2. Decile dispersion coefficient = (9th decile – 1st decile) / median / 2

Figure 44 Growth in differential and motivation to work



Source: "A Survey of Personnel Strategies and Worker Opinion Amid Diversifying Forms of Employment" (Employee Survey) (2005) by the Japan Institute for Labour Policy and Training.

Notes: 1. The increase in motivation to work is given by the proportion of persons whose motivation increased less the proportion of persons whose motivation decreased.

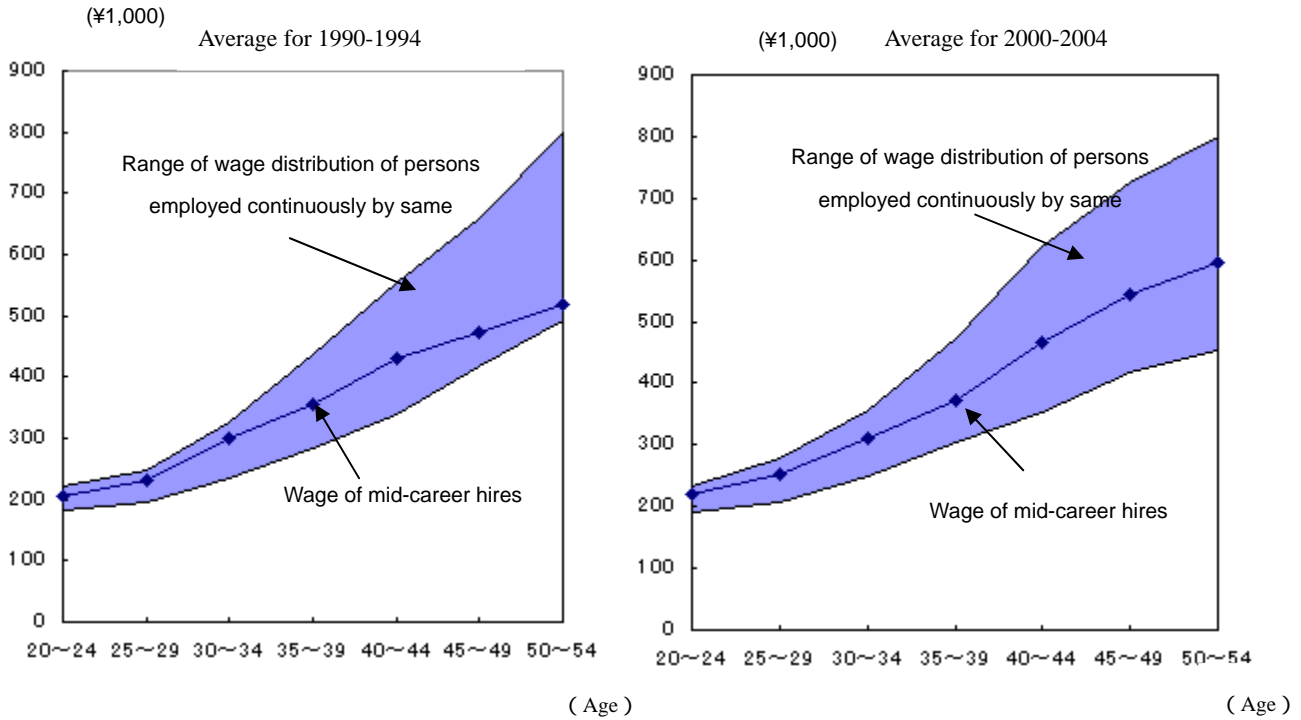
2. The increased in the differential is given by the proportion of persons whose wage differential increased less the proportion of persons whose wage differential decreased.

Appropriate rating of wages of mid-career hires through improvement of skills evaluation systems

Improvements in skills evaluation systems lead to improvements in general evaluation systems, including those for evaluating mid-career hires, resulting in steadily improving rating of such hires' wages. In the case of male workers at large manufacturers, whose compensation exhibits a particularly strong emphasis on long-term employment, an examination of the wages of mid-career hires and typical workers reveals a large improvement in the wages of the former, together with an increase in the wage differential of typical workers as well. Less and less is it true to say that continuing to work for the same company is always advantageous (Figure 45). If the emphasis on long-term employment in the Japanese-style employment system is basically retained while collective labor relations become more individualized, workers will have to improve their vocational skills if they want to be better compensated, making working conditions increasingly severe. However, there are also indications that corporate cultures are developing that allow workers to

freely display their abilities and derive satisfaction from their work. The wages of mid-career hires, too, are improving, and society as a whole is becoming more accepting of ability-based wage systems.

Figure 45 Wage distribution of persons employed continuously by same employer and wage level of mid-career hires (manufacturers with at least 1,000 employees, male university graduates)



Source: Estimated by the Office of Counselor for Labour Policy, the Ministry of Health, Labour and Welfare, based on "Basic Survey on Wage Structure" by the Ministry of Health, Labour and Welfare.

- Notes:
1. The wage distribution of persons employed continuously by the same employer is limited at the upper end to the 9th decile and at the lower end to the 1st decile of the average worker.
 2. Regarding the age of the average worker, age 22 corresponds to 20-24 years, age 25 to 25-29 years, age 30 to 30-34 years, age 35 to 35-39 years, age 40 to 40-44 years, age 45 to 45-49 years, and age 50 to 50-54 years.
 3. Mid-career hires are persons who have worked for the same employer for 0-4 years in each age group.
 4. The wage distribution is the five-year simple average and the wage of mid-career hires is the weighted average.