

JAPAN LABOR BULLETIN

ISSUED BY THE JAPAN INSTITUTE OF LABOUR

Vol.33 No.12

December 1994

CONTENTS

General Survey

- ▶ 1992 Social Welfare Benefits Hit a Record High

Working Conditions and the Labor Market

- ▶ Job Openings-to-Applicants Ratio for Prospective High School Graduates

Human Resources Management

- ▶ Steelmakers Farm out Workers to Subsidiaries

International Relations

- ▶ Japan-EU Symposium
- ▶ Third Tokyo Seminar on Comparative Labor Law Held

Public Policy

- ▶ Labor Panel Mediates First Sex Bias Case Since Enforcement of Equal Opportunity Law

Special Topic

- ▶ The Employment of Older People in Japan and Policies to Promote It

Statistical Aspects

- ▶ Recent Labor Economy Indices
- ▶ Trends in Ratio of Job Openings to Job Applicants for New School Graduates and for All Job Seekers Other Than New University Graduates

General Survey

1992 Social Welfare Benefits Hit a Record High

Social Welfare benefits such as pensions, medical-care insurance and welfare assistance allowances paid in fiscal 1992 totaled an all-time high of 53.8461 trillion yen, according to a survey conducted by the Social Development Research Institute, an auxiliary organ of the Ministry of Health and Welfare. Benefits for senior citizens accounted for over 60 percent of the total for the second consecutive year, with this share of the total rising yearly.

The percentage of social welfare benefits in national income was 14.96 percent, up 1.01 point over the year before, the largest figure recorded since 1950, when the Institute began compiling statistics. This increase was in major part attributable to rising medical care unit costs, growth in unemployment benefits, and children's allowances, combined with a low rate of overall economic growth.

Benefits for elderly people, which include pensions, health insurance and welfare services, amounted to 32.6047 trillion yen, up 7.8 percent over the year before, accounting for 60.6 percent of the total. The proportion of benefits for senior citizens has doubled in the past 20 years from 30.1 percent in 1974. Old-age welfare service benefits, in particular, showed a sharp year-on-year increase of 13.8 percent. They include government aid to elderly people's entering such facilities as special-care homes for the aged and at-home care, such as home-help services. The analysis of social-security expenditures shows that pension benefits made up 51.3 percent of the total and medical-care insurance benefits 38.6 percent while other benefits, such as welfare assistance allowances and social welfare-service benefits accounted for 10.1 percent. The composition ratio was almost the same as the year before.

Working Conditions and the Labor Market

Job Openings-to-Applicants Ratio for Prospective High School Graduates

Each year, approximately 40 percent of high school graduates join the work force and start their working career immediately after graduation. The vast majority find employment through career-path guidance offered by their schools to help them find jobs. When it is necessary to recruit new high school graduates, businesses provide job-offer documents to individual high schools via public employment security offices. Utilizing this job-opening documentation, students decide on which firms to apply to, while the schools recommend these students to firms. In the spring-to-fall period of the year before graduation, seniors take

an employment test and receive an informal offer of employment and acceptance from the company they wish to join before they actually graduate.

The ratio of job openings to job applicants for high school students graduating in the spring of 1995 who are seeking employment stood at 1.35 as of the end of July, down from the year before for the third year running, according to a recent Ministry of Labour's survey. The ratio of job offers to job seekers for high school graduates peaked at 3.08 in the corresponding period of 1991 and has fallen thereafter. It dropped below the 2.0 mark in 1993 (See Statistical Aspects below). Job offers for high school graduates have been regarded as more stable than those for college and university graduates, but are gradually becoming less so due to the effects of the prolonged recession.

The survey shows that the number of job offers for high school graduates was 504,000, down 37.4 percent from the year before. The number of high school graduates who applied for jobs was 372,000, down 8.2 percent from the previous year. The sharp drop in job offers pushed down the ratio of job offers to job seekers by 0.63 points from 1.98 for the preceding year.

Some junior high school graduates, though small in number, enter the labor market immediately upon graduation. Graduating junior high school students who are seeking employment fell 14.1 percent from a year earlier to 10,000. The number of job openings for them declined 43.9 percent from the year before to 16,000, with the ratio of job offers to job seekers dropping 0.84 points to 1.57.

Human Resources Management

Steelmakers Farm Out Workers to Subsidiaries

When it is necessary to reduce surplus workers through "employment adjustment," many Japanese firms take such steps as sending them off to subsidiaries as well as to related and other firms instead of dismissing them. Sending workers off to subsidiaries, affiliates and other firms is called "*shukko*," or temporary transfer. In this form of employment adjustment the employee is transferred while retaining employment status at his or her original company. Amidst Japanese economic conditions following the oil-supply crunches, the *shukko* system has played a significant role in relocating redundant workers, and middle-aged and older workers in particular. Wages paid to transferees at the receiving enterprise are always lower than those paid by the original employer. Thus in many cases, the gap between the wages paid by the new employer and those by the original employer is bridged by the latter. In

contrast to the *shukko* system under which the transferee maintains employment relations with the original employer, "*tenseki*," or change of permanent employment place of record, is a system under which the employee leaves his or her original enterprise and becomes an employee at the new firm.

Steelmakers confronting the protracted recession and high yen are now accelerating their streamlining and rationalization efforts, including cuts in personnel costs.

Nippon Steel Corp. unveiled the fact that of 15,000 transferees including would-be ones, about 4,000 agreed to change their permanent employment place of record. The 4,000 will leave Nippon Steel and will be employed by subsidiaries and affiliates to which they have been farmed out. The gap between wages paid by Nippon Steel and those of its subsidiaries, affiliates and other firms is estimated at around 60 billion yen annually, constituting a heavy burden on management. The new plan will bring the total number of the company's employees down to 46,000. However, the company will pay those who will be farmed out for good the same salary they would have received if they had continued working at the original company until they retire at age 60, plus retirement allowance. Thus, personnel costs Nippon Steel pays will remain unchanged, but such related expenses as welfare costs will decrease.

Of the 4,000 transferees, 1,500 are managers. The firm sounded out managers in their 50s and union members aged 55 and older about changing their permanent employment place of record. In addition, the firm asked would-be transferees to accept transfers for good once they actually moved to subsidiaries and other related firms.

NKK Corp. announced a new personnel program based upon a review of the personnel and welfare system as its centerpiece. Under the new plan, the company plans to reduce labor costs by abolishing special allowances paid for differences in scheduled and actual working hours between the company and the new firm to which its workers are transferred as well as allowances for work on national holidays. The company will also accelerate its efforts to reduce manpower by early retirement system. It aims to eliminate 5,800 workers in the next three years and reduce labor costs by 40 billion yen. Other major steelmakers are also implementing similar cost-cutting measures and policies.

International Relations

Japan-EU Symposium

The Japan-EU Symposium with a theme of "The Changing Employment

Environment-Flexibility of the Employment Environment" met in Shinjuku, Tokyo, on Oct. 14. The Symposium, held alternately each year in Tokyo and Brussels since 1990, featured reports and discussions particularly on employment systems.

Representing Japan as main reporters were Akira Takahashi, Research Director General of the Japan Institute of Labour, and Tadashi Hanami, professor of Sophia University. They remarked on the flexibility of Japan's long-term employment practices. They pointed out, for instance, that the number of new graduates who join the labor force and continue to work for the same company until they retire is not actually that great; that the merit-rating system is being married with pay based on seniority and that reassignments and temporary transfers to subsidiaries and other related firms "make the company's internal labor market highly flexible."

The EU side, on the other hand, noted that Europe's employment system is becoming dilapidated and its labor market rigid, thus pointing out the need to formulate and implement job-creation measures, including improvement of the employment insurance program and establishment of education and training programs. Louis Fina Sanglas, Director General of the EU Commission on Employment and the Job Market, and Herman Van Zonneveld, chief of the section in charge of industrial relations and labor laws, served as main reporters from the EU side. In the discussions, however, the EU side noted that views and opinions are different between labor and management on flexible and resilient employment, suggesting difficulty in building a public consensus.

Third Tokyo Seminar on Comparative Labor Law Held

The Japan Institute of Labour (JIL) sponsored the third comparative labor law seminar in Tokyo on September 24. Six labor law professors from Europe and the United States participated in this two-session seminar along with some 20 Japanese attendants. Participants discussed the increasingly important topic of "Working Life and Family Life Policies for their Harmonization."

In the first session, the participants overviewed the "Present Schemes for Harmonizing Working Life and Family Life" in each country including equal employment opportunity laws, child and elderly care leave, method of assistance for flexible work styles such as part-time work, and day care facilities. The discussion revealed that there are notable differences in each country's policies for the harmonization of working life and family life. For example, some countries have already developed legislative or administrative schemes for caring for

children and elderly family members, while other countries have not regulated such matters and have largely left them to private spheres or the free market.

The second session featured discussion of the "Analysis, Evaluation, and Future Prospects of Policies for Harmonizing Working Life and Family Life." The participants discussed from a comparative viewpoint the backgrounds of each country's policies such as labor market conditions and employment practices. The discussion also covered the role of the state or government in achieving harmonization. Despite the differences in policies and their background, it was generally agreed that harmonization of working life and family life is one of the most important issues both at present and in the future.

The national reporters were Professor Janice R. Bellace of the University of Pennsylvania, Professor Marco Biagi of the University of Modena, Professor Chris Engels of the Catholic University of Leuven, Professor Jean-Claude Javillier of the University Pantheon-Assas (Paris-II), Lecturer Michiyo Kurokawa of the University of Tokyo, Professor Alan Neal of the University of Leicester, and Professor Ann Numhauser-Henning of the University of Lund.

Public Policy

Labor Panel Mediates First Sex Bias Case Since Enforcement of Equal Opportunity Law

The Ministry of Labour decided to seek mediation in the case of seven women who accuse their employer of discriminatory employment practices. These proceedings are the first since enforcement in 1986 of the Equal Employment Opportunity Law (EEOL) commenced. Twelve female workers of three Sumitomo companies applied for mediation based on Article 15, claiming that employers violated the law by discriminating against them in promotion and wage matters, simply because they are women. The mediation system was inaugurated in 1986 to resolve labor disputes in line with the law. The law stipulates three ways to resolve disputes involving sexual discrimination at the workplace: first, autonomous settlement by both labor and management (Article 13); second, advice, guidance and recommendation by chief of Prefectural Women's and Young Workers' Offices (Article 14); and third, mediation by the EEOL mediation panel (Article 15). The third procedure requires an agreement between both labor and management.

Twelve women who work for Sumitomo Metal Industries Ltd., Sumitomo Chemical Co., Ltd., and Sumitomo Electric Industries, Ltd. applied for mediation on their cases. The panel will mediate on the cases of seven women of Osaka-based Sumitomo Metal Industries Ltd.

The seven women are all veteran staffers with high school diplomas and 19-to-35 years of service at the company. They said they are ranked in grades 1 to 3 as professional clerical staffers. Even the woman with the longest work experience who joined the company in 1959, is receiving a monthly pre-tax salary of 325,000 yen. Incidentally, clerical workers at Sumitomo classified status wise into 10 different grades from the top "assistant manager," "general planning staffer with grades 1 to 3," "professional clerical staffers with grades 1 to 3" to "general clerical staffers with grades 1 to 3."

Meanwhile, the vast majority of male workers with high school educations who entered the company before 1970 have been promoted to assistant managerial positions, with annual incomes nearly twice that of the above-mentioned female workers. The seven claimants thus asked the panel to raise their status to that comparable to male workers.

Sumitomo had tried in vain to resolve the matter through in-house consultations with the seven women and thus decided to take part in the mediation. The compromise is non-binding and does not necessarily force the firm to comply. But if the matter is brought on to a civil action, it will work against the firm.

The Ministry will ask the panel, composed of public members such as informed people, to immediately hear both sides' arguments and work out a compromise. It will not mediate the cases of the women at two other firms, Sumitomo Chemical Co., Ltd. and Sumitomo Electric Industries, Ltd. If there are any problems involving the law, Prefectural Young Workers' Offices will give guidance and advice to these two companies.

Special Topic

The Employment of Older People in Japan and Policies to Promote It

Atsushi Seike
Professor of Labor Economics
Keio University



1. Introduction

The population of Japan is now rapidly aging, and according to a projection by the Institute of Population Problems of the Ministry of Health and Welfare, it is expected that the proportion of older people aged 65 and over will exceed 25 percent by the year 2020. Because

the proportion now is still less than 15 percent, there will be a 10 percentage point increase within 25 years. On the other hand, the population of young people will decline dramatically. Specifically the population aged between 20 and 29 will start declining after 1996 when it peaks at 19.2 million. Within a decade, by the year 2005, this population will decline to less than 16 million, a drop of more than 3 million. It will continue declining to 12.5 million by 2015, a decline of 7 million, shrinking two thirds over two decades.

This population aging will create two serious problems for the Japanese economy in the future. One is the worsening of public pension finances caused by the increase in pension beneficiaries and the decline in pension tax payers. The other is a possible labor shortage, particularly a shortage of younger workers. To cope with these problems, it will be important for Japan to utilize older workers who still have the ability and the desire to continue working.

An adequate policy to cope with these changes in the labor market will be necessary. Especially, a coordination of the public pension system and policies for promoting the employment of older people will be important. This article focuses on the employment of older people in Japan and policies to promote it.

2. Labor Force Participation of Older People and the Employment of Older Workers in Japan

The labor force participation rate of older people in Japan is still relatively high compared to other OECD countries. As seen in the Table 1, the labor force participation rate of males aged 60 to 64 is 75% in Japan, whereas in Germany it was only 35%. It is even higher than the NIES countries such as Republic of Korea and Singapore.

Table 1 Labor Force Participation Rate among Men aged 60 to 64 Years

Country (Year)	Age Group		
	55-59	60-64	65-69
France (1991)	69.9%	18.0%	4.7%
Germany (1991)	81.4	35.0	8.2
Japan (1992)	93.6	75.0	56.5
Republic of Korea (1992)	84.9	71.0	42.3
Singapore (1992)	71.3	49.2	33.8
U. K. (1992)	80.1	54.2	8.4
U. S. A. (1992)	79.8	55.1	26.6

Source : ILO, Year Book Labour Statistics, 1993.

However, if you look at the time trend for the labor force participation of older people in Japan, it has been declining in past decades. Figure 1 shows the trend for labor force participation of males aged 60 to 64. It declined by 10 percentage points from the 1960s to the end of the 1980s. There are several reasons which explain this downward trend.

One is the decline of self-employed workers among the older population. Self-employed workers are not forced by mandatory retirement to leave the workplace and are able to make their own decisions about adjusting their working schedule in accordance with their health. Self-employed workers thus tend to continue working to a later age than employed workers do. The decline in the proportion of self-employed among the older population therefore reduces the labor force participation of older people. In fact, the proportion of self-employed among the older population declined particularly in the 1960s, mainly because of the drastic decline in the farming population.

After the mid-1970s however, there was a more important factor which contributed to the downward trend in labor force participation among older people in Japan. Japan substantially improved public pension benefits in 1973, when it made a major revision of its public pension system. Indexation was introduced for retiring workers' past wages to determine their public pension benefits. Indexation was also introduced to regulate the benefits according to consumer price increases in order to maintain the benefits' real value.

This revision caused a significant jump in pension benefits as shown in Figure 1. The average benefit seen in Figure 1 includes beneficiaries with very low benefits because of a short period of contributions. The so called "model" benefit available to the career worker who continues working from age 18 through age 60 is therefore higher at about 220,000 yen per month.

As seen in Figure 1 there is a sharp contrast between the downward trend of the labor force participation of Japanese older people and the substantial improvement in public pensions. This suggests that people who used to be unable to retire, relying only on public pension benefits became able to retire through these improved benefits. Furthermore, the econometric analyses which we conducted show that the labor force participation decisions of Japanese older people are clearly dependent on their eligibility for the social security pension as well as on available wage levels and other labor conditions (Note).

Figure 1. Trend in the Labor Force Participation Rate for Men aged 60 to 64 Years and Average Public Pension Benefit in Japan



Source : Social Security Agency, *Annual Report*, and Management and Coordination Agency, *Annual Report on the Labor Force Survey*.

As I will discuss later, the Japanese government is now revising the public pension system to include moderating pension benefits, raising the eligible age and relaxing the earnings test. This revision will increase the probability of labor force participation. The educational level of older people will improve in the future and this trend along with other improvements in qualifications of older workers will result in higher market wages for older people above the age of 60. This improvement in wages for older people will also increase their labor supply.

On the labor demand side of the employment structure of older workers, there has been substantial improvement in employment opportunities for workers up to age 60 in the past decade. As seen in Table 2, the age for mandatory retirement, which on average formally was 55 years old, became 60 years old in part because of a strong campaign by the Ministry of Labour. Now more than 90 percent of firms with mandatory retirement ages set this at 60 (including those firms scheduled to begin this practice).

Table 2 Mandatory Retirement Ages

Age of Mandatory Retirement	Year			
	1980	1985	1993	1993 (Plan)
~ 54 years old	0.2	0.1	0.2	----
55	39.5	27.0	9.7	2.3
56~59	20.1	17.4	10.3	3.3
60	36.5	51.0	73.9	83.6
61~64	0.7	2.1	1.6	3.0
65	2.5	1.8	4.4	7.8
66~	----	0.5	0.0	----
60 and over	39.7	55.4	80.0	94.4

Note : 1993 (Plan) includes firms which have not yet revised the mandatory retirement age, but are planning to do so in the near future.

Source : Ministry of Labour, *Employment Management Survey, 1993*.

The employment of older workers beyond age 60, however, has not been expanded enough to satisfy the labor supply so far. The job-seekers/vacancies ratio for workers over the age of 60 has been 0.1 to 0.2 in the past two decades except for the year just before the oil crisis.

Table 3 shows the proportion of firms that have some kind of employment continuation or reemployment program beyond the age 60. Although the proportion of firms with programs is not small, the proportion decreases as the size of firm increases. Furthermore even among the firms with these programs, many maintain the right of selection. There are very few firms which automatically accept applications for job continuation or reemployment programs by workers.

Table 3 Proportion of Firms with Employment Continuation or Re-employment Programs

Firm Size	Employment Continuation	Re-employment	Both Programs	Total
Firm Size Total	18.1	39.9	15.0	72.9
Over 5000 employees	2.7	44.9	3.3	50.9
1000-4999 employees	6.9	44.6	9.5	61.0
300-999 employees	10.4	45.5	13.3	69.2
100-299 employees	16.4	42.9	17.0	76.3
30-99 employees	20.0	38.0	14.7	72.7

Source : Ministry of Labour, *Employment Management Survey, 1993*

There are several reasons for employers' reluctance to expand employment of their older workers. First of all, particularly in recent years, there has been little necessity for employers to expand their employment of older workers. Unlike the economic boom period of the "bubble economy", employers have actually been trying to reduce their total work forces, including those below the age of 60. And at least until the year 1996, the number of young workers will continue to grow, so there will be no urgent necessity for employers to rush to employ older workers.

The other factors are rather institutional obstacles. The biggest impeding factor for employers to exceed employment of older workers is the seniority wage system. It is certainly costly for employers to extend the age of mandatory retirement beyond age 60 with a seniority wage scheme in which the wage levels are increased at least partly in accordance with age or length of service. Related to the seniority wage scheme is the seniority promotion scheme, in which most older workers take managerial positions. This creates another obstacle, because employers need to ask older employees to retire in order to be able to give promotions to younger employees. Human resource training practices in many firms allot most of the training resources to younger workers, which may also discourage older workers from retraining, and make them unproductive workers.

Nevertheless, these obstacles promoting the employment of older workers appear likely to decrease in the future. First, the age-population structure will change as mentioned earlier. There will be a sharp decline in the younger population in coming decades. Employers will need to depend more on older workers to cope with the decline in the younger work force.

Seniority wage and promotion schemes will also change partly because of the change in the age-population structure, but also because of the change in the industrial structure which I will discuss in the next section. In the new industrial structure, employers will need more professional workers who will be more mobile between employers rather than on-going steady organization oriented workers. Employers will have to pay for workers' contributions based upon their abilities in the short run, instead of using the seniority wage scheme which equalizes workers' contributions and wages in the long run.

Taking into account all these situations relating to the employment of older workers both on the labor supply side and the labor demand side, it is very difficult to expect that the employment of older workers will expand immediately. However, the possible change of circumstances in the future and adequate policies for promoting the employment of older workers provides a more optimistic view in future decades.

3. Policies to Promote the Employment of Older Workers

In the wake of the declining younger working-age population mentioned above, Japanese firms will need to utilize more older workers. Of course, on the other hand, there should be a sufficient supply of older people to be employed at that time. Adequate policies will therefore be necessary to encourage both labor demand for older workers and labor supply of older people in order to promote their employment.

The Ministry of Labour will start subsidizing wages of older workers to encourage them to continue working beyond the age of 60. The Ministry is also campaigning to encourage employers to expand employment of older workers and hopefully to advance the age of mandatory retirement to 65 years.

In connection with employment policies, public pension policy also plays an important role in promoting the employment of older people. Of course it is important to note that we should guarantee a choice of retirement for those older people who prefer retirement instead of continuing to work. To provide the right to retire to older people is one of the most basic conditions for an advanced society.

Given this right of retirement however, it is also important not to discourage older people who wish to continue working. In this sense, it is noteworthy that the Ministry of Health and Welfare is now revising the public pension scheme to make it more consistent with encouraging older workers to continue working.

This revision of the public pension system includes a moderation of benefit levels, an extension of eligible age from age 60 to 65, and a relaxation of the earnings test. Moderation of benefit levels will be done by changing the method of indexing past wages of retiring workers. The system will index past wages based on the after tax earnings of public pension tax payers instead of before tax earnings, which is the current practice. Extension of the eligible age will be done by introducing a new partial pension for those between the ages of 60 and 64. This will provide about half of the full pension for those who would like to retire before the age of 65. As for relaxation of the earnings test, the proposed scheme raises the ceiling for pension benefit from 250,000 yen per month to 350,000 yen. Furthermore, under this new ceiling, total income, i.e. earnings plus pension benefits, does not decrease as earnings increase.

This revision of the public pension system will increase the supply of older people in the labor market. Both moderating pension benefits and raising the eligible age will increase the probability of labor force participation. The relaxation of the earnings test will change the decision of pension eligible workers who now tend to reduce the supply of labor offered to the market in order to avoid a large reduction in their benefits. This change will increase the supply of pension-eligible workers.

Another revision starting in 1998, in which older people will not be able to receive public pension benefits while receiving unemployment benefits, is also an attempt to avoid discouraging those older workers who want to work. This coordination of employment policy and social security policy will be done to a greater extent in the future.

Notes

Seike, Atsushi "The effect of the employee pension on the labor supply of the Japanese elderly," *A Rand Note*, No.2862, 1989.

Statistical Aspects

Recent Labor Economy Indices

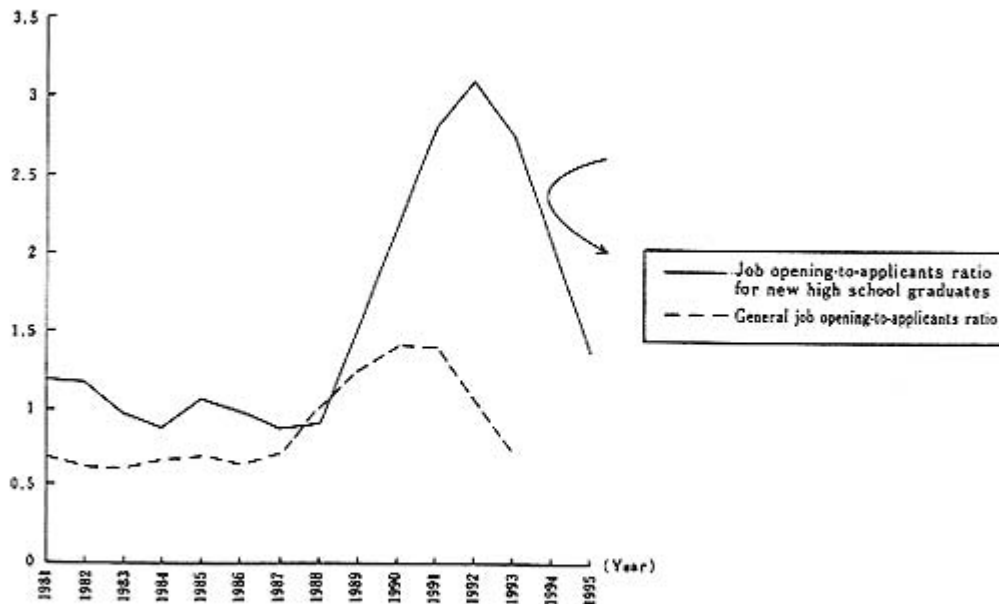
	July 1994	June 1994	Change from previous year
Labor force	6,690 (10 thousand)	6,704 (10 thousand)	29 (10 thousand)
Employed	6,490	6,516	-4
Employees	5,249	5,257	21
Unemployed	200	196	33
Unemployment rate	3.0%	3.0%	-0.5
Active opening rate	0.63	0.62	-0.09
Total hours worked	154.5 (hours)	164.8 (hours)	-0.2*
Total wages of regular employees	(¥thousand) 276.4	(¥thousand) 279.0	2.1*

Source: Management and Coordination Agency, Ministry of Labour.

Notes: 1. *denotes annual percent change.

2. From February 1991, data of "Total hours worked" and "Total wages of regular employees" are for firms with 5 to 30 employees.

Trends in Ratio of Job Openings to Job Applicants for New School Graduates and for All Job Seekers Other Than New University Graduates



Source : Publications by the Ministry of Labour

Note : The ratio of job openings to job applicants for prospective senior high and junior high school graduates presents the figure for those who will graduate in March of the year and as of the end of July of the previous year.