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Working Conditions and the Labor Market

Employed Elderly on the Decrease

Older people are having increasing difficulty finding jobs according to the Ministry of Labour's Survey on Employment Conditions of Older Persons. The rate of employment for those aged between 55 and 69 stood at 73.8 percent for males and at 43.5 percent for females (down 2.8 percentage points and 0.2 percentage point respectively from the previous survey conducted four years ago).

The survey consists of two parts, one for elderly individuals and the other for establishments. The first part is administered to some 30,000 people aged between 55 and 69 living in some 550 districts selected at random. The second part is sent to about 12,000 establishments randomly sampled from among private firms with 5 or more regular employees. Administered in October 1996, 81.6 percent of the individual surveys and 72.3 percent of the firm surveys were returned.

The rate of employment by age dropped from the previous survey. The rate was 70 percent for men aged 60-64 after retirement and 53.5 percent for those aged 65-69, while it was 28.1 percent for women aged 65-69. Of those not working, 52.4 percent of males and 29.9 percent of females wanted to work, up 4.3 percent points for men and drop 2.5 percent points for women. As why they were not working, 59.3 percent of men and 39.4 percent of women said they could not find a good job. The rate was up a sharp 15 points from the previous survey. Among the firms surveyed, 10.7 percent planned to increase their employment of persons aged over 55 (down 8.5 points) while 39.4 percent did not plan such an increase (up 15.5 points).

More Dispatched Workers and Manpower Dispatching Firms

The Ministry of Labour released its 1995 Project Report on the Manpower Dispatch Business in May. As a requirement of the Worker Dispatch Business Law, individual firms which dispatch workers to other firms report to the Minister of Labour each business year. The Ministry compiled the results from each round of reports. The reports were submitted by 9,019 firms between April 1995 and March 1996, of which 6,307 had actually dispatched workers, more than had submitted a report during the previous year.

The firms employed 142,717 regular, full-time employees and 112,240 non-regular

equivalent employees, up 2.8 percent and 12.9 percent respectively from a previous year. The estimate for non-regular employees is obtained by dividing the total annual hours worked by such workers by the annual average number of hours worked by regular employees. The number of persons who had registered to obtain such work was 469,339, up 7.4 percent from the year before. The figures show a steady expansion in such the employment of dispatched workers.

In December 1996 the job categories in which manpower could be dispatched were expanded from 16 to 26. Moreover, industry has increasingly called for the liberalization of this kind of manpower. The demand for dispatched workers is expected to grow in the years ahead. However, there are problems. For instance, dispatched workers who have concluded an employment contract which exceeds two months are obligated to buy social insurance, but many apparently fail to do so. Accordingly, the Board of Audit began to check all manpower businesses in January 1997, and will ask the Social Insurance Agency to make an collection of additional premiums amount to perhaps several tens of billions of yen by this fall.

Medium-sized Firms Secure People

On June 20, the Ministry of Labour unveiled the results of a survey on the ability of medium-sized firms to employ the labor force they need. About 31 percent of the 3,000 firms surveyed (931 firms) responded to the questionnaire. Significant differences did not seem to emerge across the industries or according to how a firm was established. Rather noticeable differences occurred among firms in different stages of development.

Firms were classified into four different stages: those in the start-up period, those in their rapid-growth period, those in the management-infrastructure establishment period, and those in the second-growth period. The categorization was based on the judgment of each respondent.

First, 55.8 percent of firms in the start-up period lacked experts in particular areas such as merchandise development, technology and research.

Second, 41.8 percent of firms experiencing rapid-growth noted an overall shortage of quality people. This was a higher percentage than that recorded by firms in the other three stages. An even larger percent (47.9%) of firms in this stage reported a shortage of senior or middle managers.

Third, 46.7 percent of firms in the period of establishing management infrastructure, cited a shortage of experts in products development, technology and research, pointing to the need for additional experts in the areas of technology and business operations as the firms move to open up new markets. At the same time, 43.6 percent of these firms which comment that their personnel costs had increased rapidly, resulting in a need to consolidate the wage system and personnel programs.

Fourth, 43.6 percent of firms experiencing second-growth replied that they lacked experts in the fields of products development, technology and research. Moreover, 41.7 percent pointed to a shortage of experts in management planning and business operations. Some firms in this category also cited the need to cope with rising wage costs.

The survey also questioned firms about their needs in terms of government and the administration. Firms strongly requested that counseling services be expanded for firms seeking to recruit people during the start-up period. Assistance in building their core labor force was mentioned by firms in all categories.

International Relations

Illegal Entrants Increasing and Most Deportees are Unlawfully Employed

The number of people deported in 1996 for violating the Immigration Control and Refugee Recognition Act was 54,271, down 2.2 percent from 1995, according to a report compiled by the Ministry of Justice, Immigration Bureau. Of the deportees, 47,785 (88%) were working in Japan illegally. The number of illegal workers, however, had decreased from 59,352 in 1994 and 49,434 in 1995.

The illegal foreign workers came from 97 countries, a larger number than previously recorded. Asians made up the overwhelmingly largest majority with 43,599 deportees from 25 nations. In 1996 11,444 deportees were returned to South Korea, followed by 7,403 returned to China (excluding those from Taiwan and Hong Kong), 5,646 Filipinos and 5,561 Thai. Males numbered 31,160 and females numbered 16,625 (with the percentage of male illegal workers standing slightly higher than in 1995).

Many of the deportees entered Japan as tourists (temporary visitors), students or entertainers. The number of people caught trying to smuggle themselves into Japan has also been increasing in recent years. People seeking to enter Japan without proper passports totaled 4,827 in 1996 (up 3.5 percent from 1995). Of these Thais, Filipinos and Chinese accounted for 75.5 percent of the total. The increase in the number of illegal Chinese

immigrants rose by 1,068 (up 31.5 percent from the year before).

Special Topic

The Implications of Mandatory Retirement for the Utilization of the Human Capital of Older People

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1. Introduction

The costs of maintaining older people in terms of the public pension, medical care and various support services will increase drastically over the coming decades. To alleviate those costs, the employment of older people is very important. If older workers continue to work instead of retiring and collecting pensions, they will continue to contribute to the social security system instead of becoming a drain on its funds. It is thus important that the Japanese economy utilize the human capital of its older workers to cope with the sharp decline which will occur in number of the younger workers over the next two decades. It is estimated that the population in their 20's will decline from 19.1 million in 1996 to 12.5 million in 2015. Thus the employment of older people is a most important policy consideration in the years to come.

However, the mandatory retirement system found in many firms will be inconsistent with the need to employ the older generation in the years to come. Mandatory retirement from a career job is accompanied by a drop of 17 percent in the labor force participation rate of older people (Seike 1989). Mandatory retirement does not necessary mean retirement from the work force, but it results in a drop in wages which discourages many older people from working. It also results in a certain dislocation as workers are removed from their current job and a work environment with which they are familiar.

The more human capital they have the higher the possibility that he or she will be subject to a mandatory retirement system. Mandatory retirement systems are more prevalent among large firms, and are more likely to be applied to full-time employees and those in higher positions. In other words, mandatory retirement is more likely to occur with certain career job characteristics (Seike and Yamada 1996).

The discussion which follows considers the negative effects of the mandatory retirement on the utilization of human capital in Japan and draws from Seike and Yamada (1997).

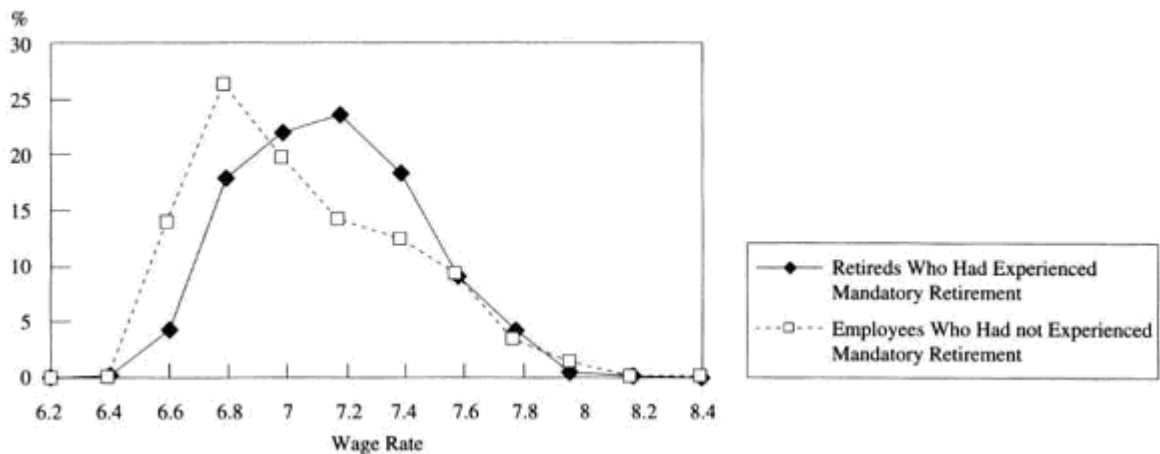
2. The Loss of Human Capital Which Can be Attributed to Mandatory Retirement

Can the relationship between mandatory retirement and the level of human capital of retirees in general be substantiated? Looking at men aged 60 years old and over, do those confronting mandatory retirement possess higher skills than other older people in the same age group who are working without the prospect of mandatory retirement? Establishing such a relationship would confirm that a loss of human capital was associated with mandatory retirement.

To research this matter, the level of human capital of older men was measured by their market wages. In other words, a higher wage was seen as equivalent to having a more valuable stock of human capital. The distribution of the market wages for those who had been subjected to mandatory retirement was compared with the distribution for those who had not experienced mandatory retirement. The potential market wages for each group were then imputed by using the Heckit model (cf. Heckman 1979) to obtain estimates free from a sample selectivity bias for non-working older men.

Figure 1 shows that the distribution of log wages imputed with the Heckit model for the two groups of men aged 60 to 69. The comparison was made between mandatorily retired men and working men who had not been mandatorily retired. It clearly shows that the retired men who had been mandatorily retired tend to have higher wages (and thus a greater stock of human capital) than the working men who had not been mandatorily retired.

Figure 1: Wage Rate for Older People Who Had and Had not Experienced Mandatory Retirement Experience (Men Aged 60-69)



To assess the extent to which mandatory retirement reduced the utilization of the human capital of older workers, attention was directed to the hours worked and the possibility each worker had to do the same work he had done at age 55. In other words, the longer the hours worked, the more his human capital was utilized. Or, the more he worked in the same occupation as he had at 55, the more likely that his human capital was being fully utilized.

Figures 2 and 3 show the distribution of weekly hours worked and the proportion of workers who were working in the same occupation as they were at age 55. Older workers with the mandatory retirement experience were compared to those without the mandatory retirement experience. An estimate of the weekly hours worked was obtained by using the Heckit model (Heckman 1979).

Figure 2 shows the frequency is skewed toward shorter hours worked under 40 hours a week for workers who had experienced mandatory retirement, though one should not exaggerate the difference. Jobs which are assigned to workers after mandatory retirement tend to require shorter working hours than career jobs and therefore less utilization of their human capital can be seen.

Figure 2: Weekly Hours Worked for Older Workers Aged 60-69 Who Had and Who Had not Experienced Mandatory Retirement

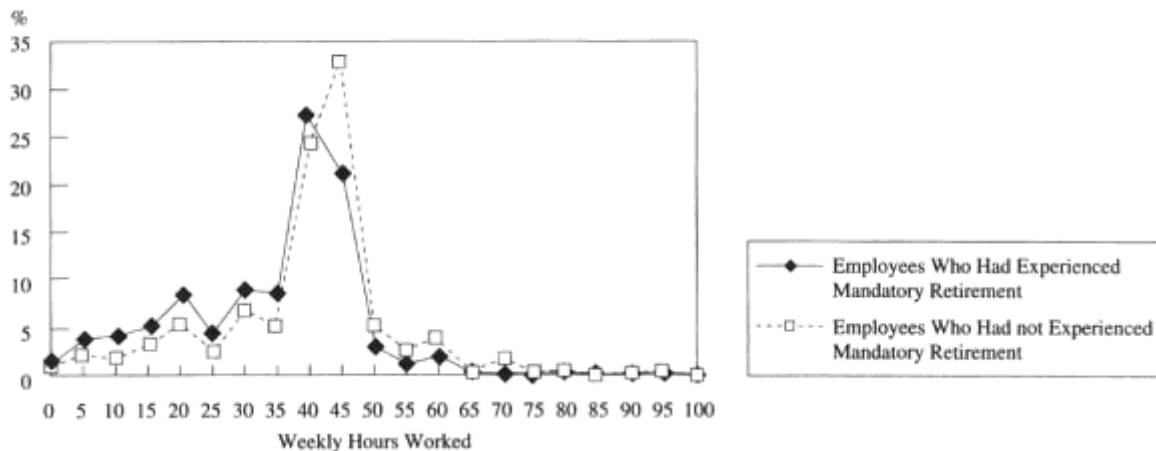
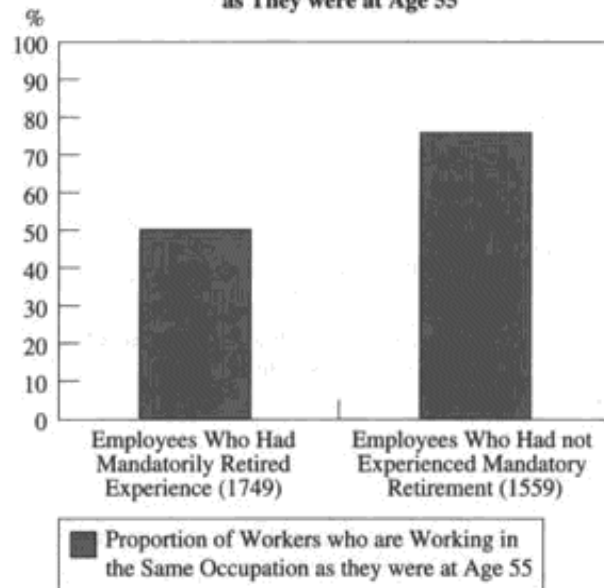


Figure 3 shows the proportion of workers aged 60-69 who are working in the same occupation as they were at age 55. Only 50 percent of workers who had experienced mandatory retirement were working in the same occupation as they did at age 55. However 80 percent of workers who had not been mandatorily retired were doing the same job. If the human capital of older workers is most efficiently utilized when they are working in the same occupation as they were in their career job, then mandatory retirement reduces the extent to which the human capital of older workers is utilized.

Figure 3: Proportion of Older Workers (Men Aged 60-69) Who Had and Had not Experienced Mandatory Retirement Who were Working in the Same Occupation as They were at Age 55



3. Lifting the Mandatory Retirement Age

The data in the proceeding section suggest that a later retirement age might result in a fuller utilization of the human capital of older people. The recommendation made here is that mandatory retirement should be changed from the current age of 60 to at least the age of 65, or that an anti-age discrimination act should be legislated to abolish the mandatory retirement system. In this regard, the Ministry of Labour recently released a report entitled "The Policy for a Society in Which People are Able to Work Actively up to the Age of 65" (*65 sai geneki shakai no seisaku bijon*), which recommended that the mandatory retirement age be lifted to 65. These sorts of policies deserve careful attention. However, four kinds of concern are commonly cited when lifting the mandatory retirement age is considered.

One concern is that a rise in the mandatory retirement age would mean that older people aged between 60 to 64 (who are now able to enjoy the retirement life) would not be free to retire at 60. Although the labor force participation rate of older people in Japan is far higher than that found for the aged in other OECD countries, not all Japanese aged 60 to 64 years old want to work (Note 1).^{*} Of course, the option to retire early would still remain even if the mandatory retirement age lifted to age 65. Regarding this point, the mandatory retirement age is defined as the age up to which a worker is not required to leave the firm solely because of his or her age.

It is also sometimes posited that older people are not interested in working full-time as regular workers, and so voluntarily head into part-time work or into irregular work. It is, of course, important for us to provide older workers with as many options as possible. However,

it is also true that there are not enough full-time regular jobs for older people.

It should also be noted that many older persons who express an interest in part-time or irregular work do so under specific circumstances. One assumption is that they are still able to receive their public pension benefit from age 60, and on the other hand that they leave their primary job at the age of 60 (which is the current age of the mandatory retirement in most firms). If there were more full-time regular jobs available and the pension did not become available until age 65, more older people would 'want' to work as full-time regular workers. From this point of view, extending full-time regular employment by keeping individuals in the labor force for a longer period of time should be the primary policy goal. The need for having more choice with regard to work should be a secondary concern.

A number of persons have commented that employment expansion or re-hiring schemes are already in place and mitigate the need to lift the mandatory retirement age. For example, some employers have arrangements for extending employment or re-hiring for the retired employees in order to retain their services officially retiring them at 60. However, there is a significant difference in the nature of employment when this occurs. This is because such schemes are seen basically as being a favor provided by the employer to the older workers. If, however, the official mandatory retirement age was lifted, early retirement options would be remained worker's own choice and their bargaining position vis-a-vis their employers would be considerably improved.

Finally, there is the question of productivity and age. Can Japanese firms really afford to hire older employees and still maintain their competitiveness? In Japanese firms there are many active executives, including busy CEOs in their 60's or sometimes 70's.

The problem is not simply a matter of age and energy levels, but the employment system itself. Given the seniority based wage system in which wages are increased by age and tenure, and seniority is based on a promotion system in which older workers become managers or supervisors, the continuous employment of older workers becomes more costly. To eliminate these negative effects of the current employment practice on lifting the mandatory retirement age, it is important for Japanese firms to flatten their age-wage profile substantially, and to introduce new arrangements whereby firms are able to utilize older workers as first line professionals rather than as managers or supervisors.

These kinds of changes are beginning to appear in Japanese firms to cope with the heightened need for the Japanese economy to remain competitive.

[Note]*

- (1) According to the ILO's, Yearbook of Labour Statistics (the 1995 edition), the labor force participation rate of men aged 60 to 64 in Japan is 75 percent, whereas the corresponding rate for the USA and the UK is around 52 percent. For many European countries it is around 15 to 30 percent.

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White Paper on Labor

White Paper on Labor 1997

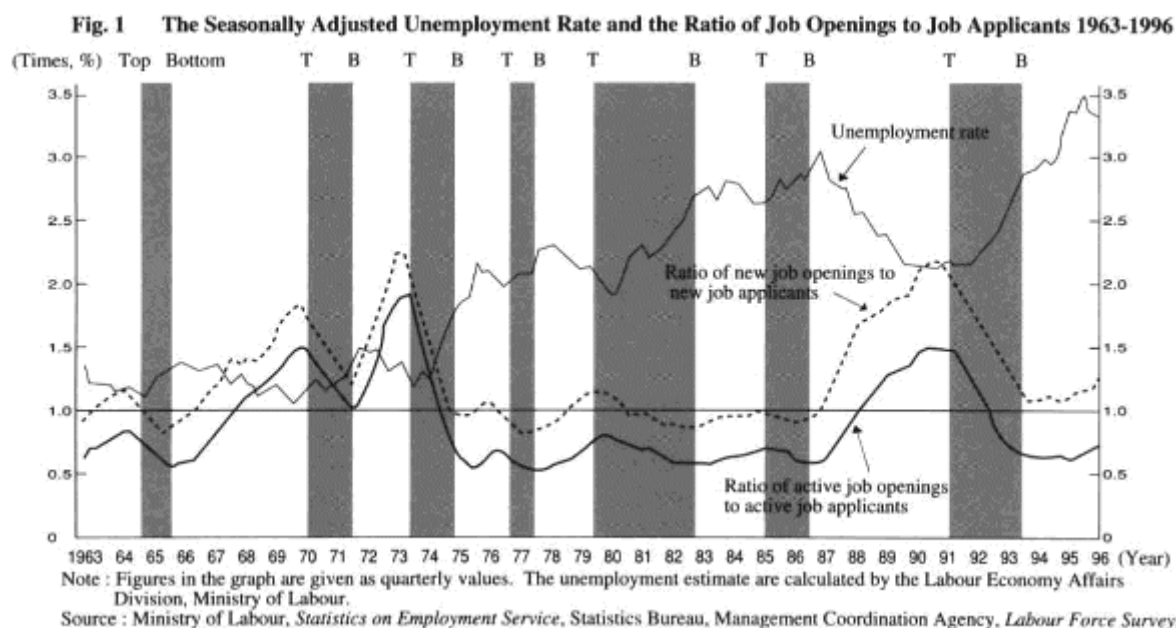
1.0 An Overview

On June 27, 1997 the Ministry of Labour submitted its 1996 White Paper on Labor to the Cabinet for publication approval. This year's white paper analyzes trends in Japan's labor economy in 1996 in Part I. Part II is titled "Employment and Wages in Structural Transformation and Coping with an Aging Labour Force." It clarifies likely changes which are beginning to occur in the demand for labor and the distribution of income, and issues concerning employment stability and the improvement in working life. It considers measures to be taken in order to maintain the vitality of Japanese society in the years to come, and to enable older citizens to lead meaningful working lives in the context of the aging society which Japan has become.

2.0 Trends and Features of the Labor Economy in 1996

2.1 Unemployment

The seasonally adjusted unemployment rate reached 3.5 percent in the middle of the year, the highest level recorded since 1953 (the earliest year for which the Ministry had comparable figures). The rate declined slightly in the latter half of 1996, but averaged a highest-ever level of 3.4 percent for the year, with the number of the unemployed standing at 2.25 million (Figure 1). The rising unemployment rate during the current recovery reflects two factors. First is the low demand for labor. Second is structural change and the growing mismatch between the supply of labor and demand for labor.



2.2 Ratio of Active Job Openings to Active Job Applicants

The ratio of active job openings to active job applicants rose moderately. This reflected a leveling off in the number of new job seekers while the number of new job offers grew as enterprises experienced improved business conditions. The ratio averaged 0.70 in 1996, above the 1995 figure which was 0.63, the first move upwards in six years.

2.3 Number of Employees

An annual average of 53.22 million persons were employed in 1996, up from the previous year. This was due to the fact that a smaller decline in the number of employees in manufacturing than in previous years did not offset the slight increases registered in other industries.

2.4 Wages

Wages grew at an annual rate of 1.1 percent in 1996, the same rate as in 1995 due to the small growth of regular earnings. Non-regular cash earnings (e.g. from overtime) grew a bit more. Special cash earnings (e.g. bonuses) recovered from a drop in 1995. Real wages rose 1.1 percent over the year showing a smaller growth than in the previous year.

2.5 Working Hours

Working hours at establishments with 30 or more employees stood at 1,919 in 1996 a slight increase from the previous year. Scheduled working hours totaled accounted for 1,774 hours, with overtime and other non-scheduled work accounting 145 hours (an increase reflecting the modest recovery of the nation's economy).

2.6 Industrial Accidents

The number of industrial injuries (deaths and injuries requiring absences of four or more days from work) continued to decline in 1996. The total number of such incidents was 162,862, a decrease of 4,454 (2.7%) from the year before. Deaths decreased 2.1 percent from 2,414 to 2,363 in 1996. The previous year had witnessed a marked increase in deaths due in part to the effects of the Great Hanshin-Awaji Earthquake.

2.7 Prices and Household Expenditures

The CPI rose 0.1 percent in 1996 after falling 0.1 percent fall in 1995. The annual household income of households headed by rose 1.5 percent in real terms, a larger growth than that recorded in 1995. Workers' household real expenditures were up 0.6 percent from 1995, the first increase in four years.

2.8 Trends in Industrial Relations

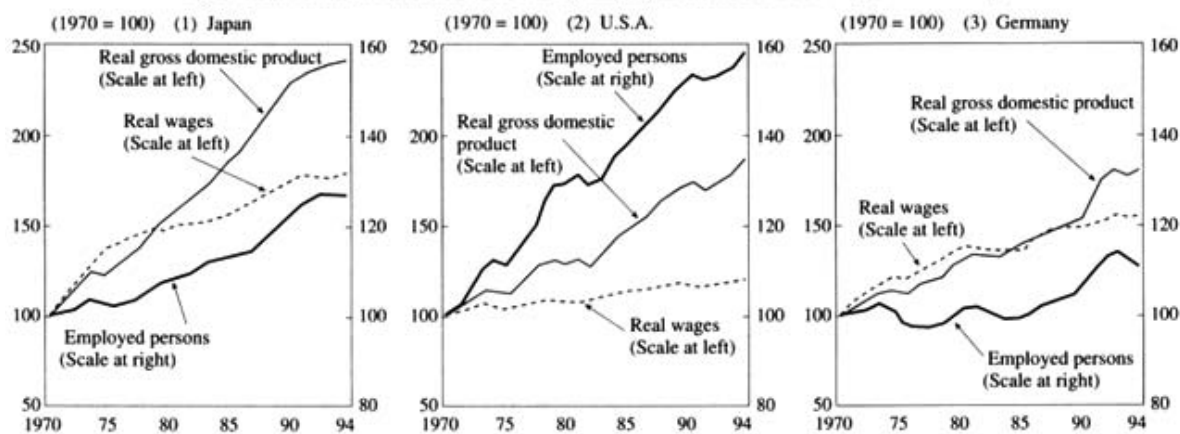
In the 1997 *shunto* (spring wage negotiations), labor and management settled on a higher wage increase than in 1996 in both the amount and the rate. In the heavily unionized industries in large enterprises the following wage hikes were agreed upon: steel, a 1.56 percent increase; electrical machinery, a 3.17 percent increase (for the standard 35-year-old worker); and auto mobiles, a 2.96 percent increase.

3.0 Employment and Wages in Structural Transformation and Coping with an Aging Labor Force

3.1 Long-term Trends in Labor Demand

The nation's demand for labor at the macro-economic level has been increasing a steady pace over the long run. Three factors help to explain this growth. One is the rapid expansion of the economy before the first oil shock. Since then there has been the elastic value of real gross domestic product (wages) as the value of the yen rose. Third has been the ability of the economy to distribute the fruits of relatively high growth between employment and higher wage income in a more balanced manner than has occurred in Europe and the United States (Figure 2). However, if wages continue to rise relative to the cost of capital, a lower growth rate in the years ahead may well be accompanied by a decrease in the demand for labor.

Fig. 2 Trends in Real Gross Domestic Product, Employed Persons and Real Wages in Three Major Countries



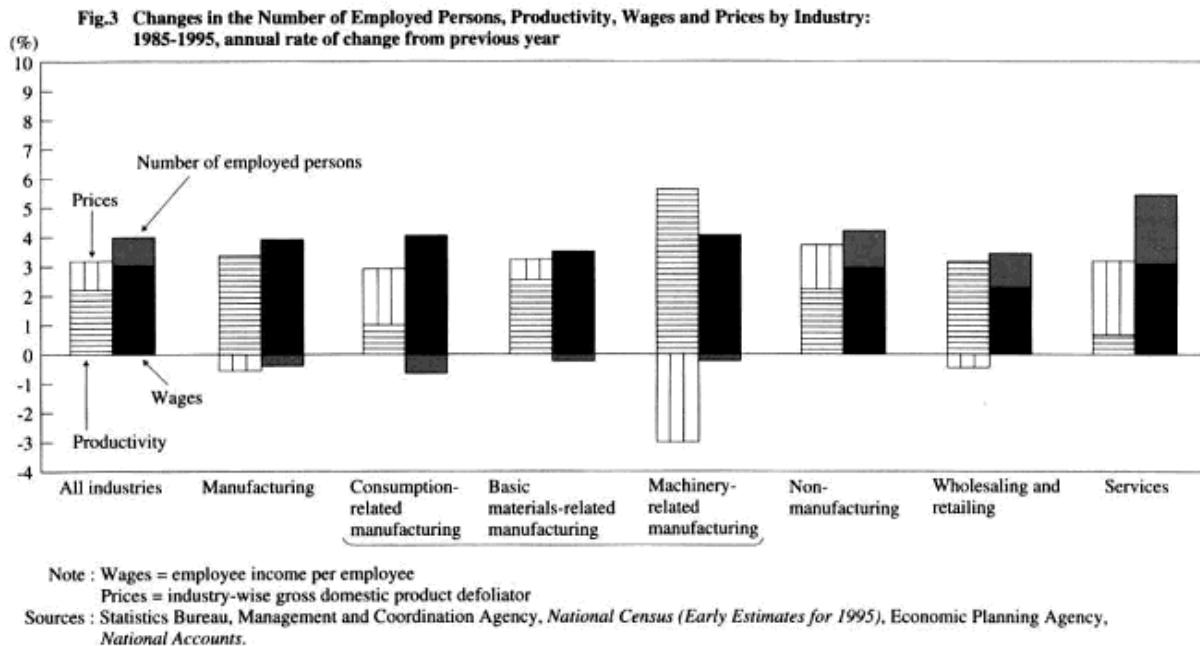
Note : Real wages represent per capita compensation of employee divided by the private final consumption expenditure deflator.
Sources : OECD, *Labour Force Statistics and National Accounts*

3.2 Internationalization and Industry-wise Employment, Wages and Productivity

Tertiary industry becomes progressively more important in Japan's economy. Employed persons in manufacturing decreased in the first half of the 1990s as changes occurred in the composition of Japan's trade owing to shifts in the international division of labor. When compared with the United States, wages in Japan rose not only in low wage industries, and improvements in both employment and real wages was achieved across the board. However, in manufacturing, productivity rose unevenly from sector to sector. In the non-manufacturing industries productivity did not improve at the rate being achieved in manufacturing (Figure 3). This situation has been reflected in the gap between domestic and foreign prices. In the sectors with a relatively low improvement in productivity, international competition will be felt, and the pressure to adjust employment and wage levels will intensify. Accordingly, the promotion of labor mobility from the low-productivity sectors to the quickly developing sectors with higher levels of productivity will be an important policy concern in the years to come.

3.3 Deregulation and Employment

As deregulation occurs, prices, business size and the number of employees will invariably be affected. This is particularly true in retail and telecommunications. To promote deregulation, it is necessary to ensure that workers in organizations and industries characterized by low productivity find work in the newly emerging sectors. Mechanisms to match labor supply and demand and the promotion of training schemes will be important to ensuring that they continue to have employment opportunities.



3.4 Technological Innovation and Variation Employment Conditions

Technological innovation (including the growing use of information) and the use of more non-regular workers (particularly part-time workers) are having a great impact on employment, organization and personnel management practices at many firms in Japan. Even so, employees such as systems engineers are not necessarily well-treated. The increasing use of part-time workers is geared to reduce wage costs, and the wage gap between the non-regular and regular workers is increasing. To improve the utilization of the labor force, the wage system needs to be altered so that wages are more in line with the ability and performance of employees. It also calls for the appropriate provision of opportunities for skill acquisition.

3.5 Income Distribution in Japan

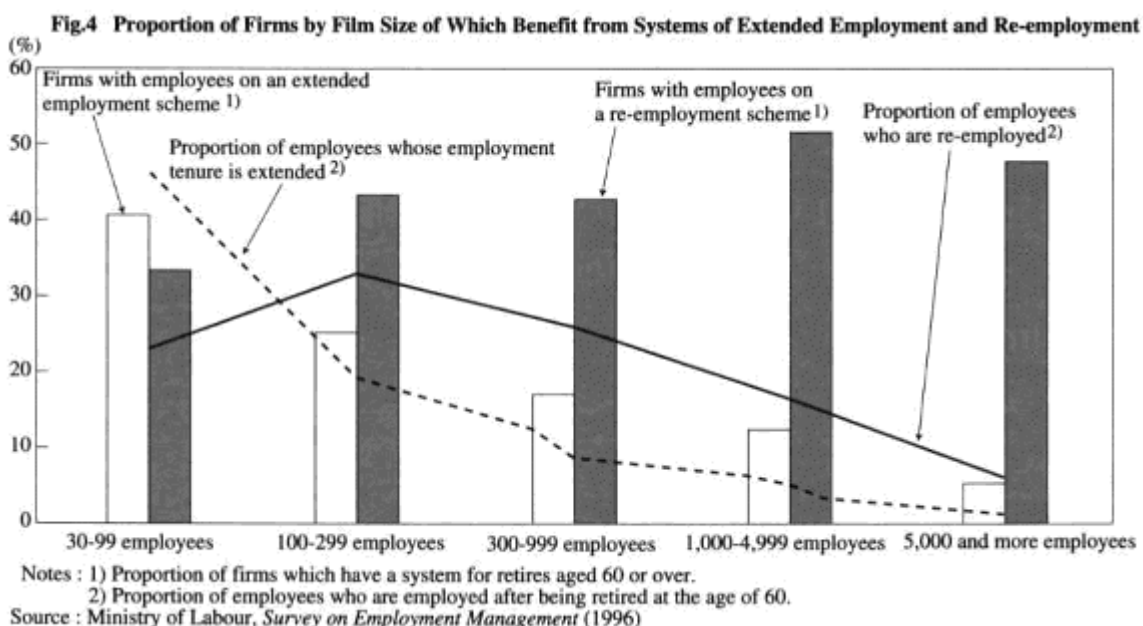
While the wage gap is widening, the size of the gap in Japan is not as pronounced as that found in the other major industrialized economies, and the overall disparity in wages is relatively small. Moreover, the level of inequality in the distribution of income as seen in surveys of household income and expenditure in Japan is not greater than that found in the United States or Britain. The disparity in annual income between income groups also remains relatively small in Japan. The recommended changes to the wage system will likely result in some increase in wage disparity in the years ahead. However, it is important to focus on the fact that an environment which allows workers to develop their own abilities will result in greater overall productivity and rising wages as a whole.

3.6 The Aging of the Japanese Population and the Employment of the Elderly

Until the 1990s the labor force participation rate for males in their early sixties had long been declining along with (i) the drop in the percentage of self-employed workers in the nation's workforce, and (ii) the rise in non-employment income from pensions and other sources. Since the latter half of the 1980s the rate has been bolstered by a tightening of the labor market owing to the bubble economy and the extension of the mandatory retirement age. By international comparisons, however, the nation's labor force participation rate for older males has continued to be high. This is attributable to the fact that the willingness of older Japanese to work is strong by international standards and the tendency of European nations and the United States to promote the early retirement of the elderly as a means of dealing with their serious youth employment. Nevertheless, the ratio of active job openings to active job applicants for the elderly in Japan is considerably lower than that for those in the other age brackets, and the unemployment rate for men in their early sixties is more than double the figure for those in the other age brackets.

3.7 Current State of Personnel Management and Retirement

Many firms in Japan currently have a mandatory retirement age of 60. However, the proportion of those who are actually employed in an extended employment scheme (as opposed to a re-employment scheme) after the compulsory retirement age is lower at the larger enterprises. Moreover, the job title and associated responsibilities are more likely to change for retired employees who are retained in the large firms. This suggests that larger enterprises are less likely to offer their retirees a work environment in which they can continue to actively use their professional careers (Figure 4).

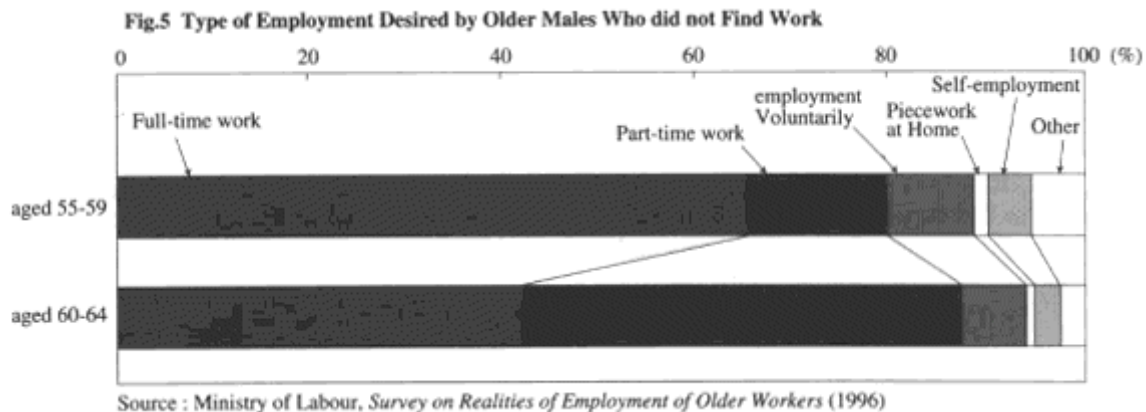


3.8 Changes in Personnel Management

The gradient of the age-wage profile curve for middle-aged and older workers has become less steep as the Japanese population ages. At the same time, wage disparity has increased as a growing number of firms move to introduce wage systems which emphasize ability and performance. In this regard, the wages of older workers before and after retirement are smaller for re-employed older workers than they are for those whose employment tenure is extended. In the years to come, properly evaluating the ability of older employees and developing wage systems which effectively reward them for their skills will be necessary in a review of the wage system which will also affect young and middle-aged workers.

3.9 Assuring Job Opportunities for the Elderly

Older workers now experience a diverse range of options when it comes to employment. The options range from full-time employment to full-time retirement. Many older workers, particularly those aged 60 to 64, want to work part-time because of health constraints and income problems. More opportunities for short-time employment are necessary, although the emphasis should be placed on full-time employment (Figure 5). Furthermore, in order to have a society in which 65-year-olds are active members and the elderly can actively utilize their hard-won knowledge, skills and experience, administrative bodies need to provide a range of counseling and support services as well as opportunities for workers to develop new skills. There is also a need to ensure that employment is adequately linked to a pension program so that workers may have more options to choose from when planning for their life in old-age.



Statistical Aspects

Recent Labor Economy Indices

	July 1997	June 1997	Change from previous year
Labor force	6,873 (10thousand)	6,908 (10thousand)	63 (10thousand)
Employed	6,649	6,679	60
Employees	5,426	5,435	71
Unemployed	224	277	3
Unemployment rate	3.3%	3.3%	0.00
Active opening rate	0.74	0.74	0.00
Total hours worked	163.0 (hours)	164.8 (hours)	1.7*
Total wages of regular employees	(¥ thousand) 289.8	(¥ thousand) 290.9	1.4*

Notes: 1.*denotes annual percent change.

2.From February 1991 the data for "Total hours worked" and "Total wages of regular employees" are for firms with 5 to 30 employees.
Source: Management and Coordination Agency, Ministry of Labour.