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## General Survey

### Trends in Debate on Revision of Pension System: White Paper on Pensions

Since the introduction of the "National Pension Plan" in 1961, Japan's public pension system has provided pension coverage for all citizens, and has come to be a main support for Japan's aged. The pension system has been revised several times to improve benefits, to index benefit payments in accordance with the movements in the CPI (Consumer Price Index), to establish the Basic Pension and to raise the age from which the pension will be paid. The public pension plays an extremely important role in the nation's social insurance system.

However, socioeconomic changes, such as the shift to having fewer children and the growing proportion of elderly people in the population, combine with stagnant economic growth and women's increasingly active involvement in the economy to underline the need for a review of the pension system as a whole. For the future stabilization of the social insurance system, the system must respond to these changes.

This year, the Ministry of Health and Welfare published a White Paper on Pensions for the first time in order to stimulate debate on the need to reform the pension system. Here several points concerning the pension system may be mentioned.

The Ministry of Health and Welfare has identified five options that it felt were deserving of attention in the debate on how the pension system should be revised in 1999:

Option A: keeping the premium for maintaining benefits currently available (which are 34.3 percent of monthly income)

Option B: keeping the premium for the Employees' Pension Plan to within 30 percent of monthly income

Option C: keeping the premium for the Employees' Pension Plan to within 20 percent of annual income (which includes bonuses)

Option D: maintaining the premium for the Employees' Pension Plan at the current level (20 percent of monthly income)

Option E: Abolishing (i.e., privatizing) the Employees' Pension Plan

The debate on these options has revolved around three concerns. The first relates to the basic requirement that a balance be achieved between the benefits and the contributions for each generation. The choice is between an assessment system, an accumulation system, or some combination of the two in order to amass the revenue required to maintain the public

pension system. The second focus for debate relates to the level at which pension benefits and contributions are calculated. The desirability of individualizing the payment of all benefits and contributions is now being discussed. The present Employees' Pension Plan is premised on the notion of there being an ideal household in which the husband has earned wages for 40 years and the wife has not worked at all. It is also based on the assumption that if the wife does participate in the pension plan as someone earning the average wage, she will receive an additional benefit. Under the current plan, a wife who has earned a wage for five years results in her husband receiving a pension of ¥239,000, only ¥8,000 more than he would receive (¥231,000) were his wife not to work at all. The third contentious issue is whether premiums should be collected monthly or annually (which includes bonuses), and whether part-time workers and full-time housewives should be required to contribute to the public pension.

Concerning the exemption of part-timers and housewives from paying pension premiums, the ministry has recently been studying ways to reduce the size of exemption from paying premiums for those who have not paid premiums but who can receive the basic pension in old age. Presently, part-timers who work less than three-quarters of the hours worked by regular workers and who earn less than an annual income of ¥1.3 million are exempted along with full-time housewives.

Japan's pension system will be revised in 1999 and the ministry seeks the views and opinions of people from all walks of life.

## Working Conditions and the Labor Market

### The Commissioning of Work by Companies and the Response of Labor

In March 1998, the Ministry of Labour released the results of the "1997 Industrial Labour Situation Survey." In the survey, the ministry queried 4,500 private firms with 30 or more regular employees about how they actually commissioned work and how commissioning has affected their employees. The "commissioning of work" includes outsourcing and subcontracting, but excludes the work done by dispatched workers.

About 50 percent of the respondents to the survey said they farmed out or commissioned work to other firms. The larger firms commissioned relatively more work to other firms. Just over 20 percent of the firms surveyed reported that they had been commissioned by other firms to handle work on a subcontracting basis.

About 50 percent of respondents turned to commissioning in manufacturing and construction, around 40 percent did so in physical distribution, such as delivery, and about 40

percent did so in machinery and equipment inspection and maintenance. Thus, the survey showed many firms commissioned to other firms that they had traditionally done themselves. On the other hand, around 20 percent commissioned other firms to handle work in information processing and systems development. Furthermore, there has been a recent trend toward commissioning work in personnel administration and in education and training.

On the effects of commissioning work to other firms, 45.1 percent of respondents pointed out that they had been able to offset their own failure to acquire the necessary professional knowledge, technology and people; 30.6 percent pointed to the reduction of personnel costs; and 23.5 percent noted that they had gained an ability to respond more flexibly to the fluctuating volume of work. However, only 20 percent said commissioning led to a decreased number of employees, indicating that the commissioning of work does not necessarily contribute to a decrease in the number of employees. Just over 40 percent replied that they had redeployed employees in some form or another, while 28.6 percent claimed they had not done so, and another 29 percent said they had no spare workers to be relocated. Thus, the survey found out that firms responded to the need for more work to be done in some section of their overall operations by shifting workers within the workplace.

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### **Labor Dispatchers Continue to Expand**

With no sign of economic recovery in sight, firms continue to reduce personnel costs by restructuring. One approach has been to replace women employees, particularly those in clerical jobs, with dispatched employees. As a result, in fiscal 1997, the major firms engaged in dispatching workers recorded a 30-40 percent increase in the profits they makes. Many of the firms recorded their largest profits ever. One such firm received ¥135 billion in January 1998, up about 30 percent from a year earlier and surpassing its previous record, which had been achieved during the "bubble" period of the 1980s. In order for these firms to recruit employees, some observers are predicting that hourly wages for their temporary workers may rise by 2-3 percent. Furthermore, in order to cover increases in social insurance premiums, it seems likely that these firms will raise the rates they charge other firms for their dispatched employees by an average 3-5 percent over the next few months.

Currently, the dispatch of temporary employees is regulated under the 1986 Manpower Dispatching Business Law, and private employment agencies can supply employees to work in only twenty-six professional areas such as software development, office-machine operation, secretarial work, translation and clerical filing. However, with the trend toward deregulation, legislation has been drafted which will relax restrictions on worker-supply services. If passed, many of the worker-supply firms will continue to expand their operations in the foreseeable

future.

As their numbers increase rapidly, temporary workers are complaining of various dissatisfactions. In order to cut the on-going commitment to maintaining a full-time regular workforce, many firms are switching to temporary workers. These temporary workers do the same work as full-time regular employees, but have lower wages than the regular employees. However, the most commonly expressed dissatisfaction is with regard to their job insecurity. Furthermore, there seem to be many cases in which temporary workers were illegally dispatched to firms to do professional jobs but were actually used to do clerical jobs. The leakage from the dispatching firms of personal information on their temporary workers has increased and is another serious problem. If the present regulations are relaxed, it is feared that the above kinds of problems will become more pronounced in the years ahead.

## International Relations

### **Japanese Firms in Southeast Asia Scale Down Production and Employment**

According to a survey by the Japan External Trade Organization (JETRO), Japanese firms operating in Indonesia and in the Philippines have been under pressure to reduce production levels due to the currency crisis in Asia. They are laying-off or dismissing local employees, and sending their Japanese staff back home. However, they do not expect to see any signs of improvement in the business environment at the moment.

In Indonesia, sales of products went down further with the cost of raw materials skyrocketing due to the fall of the rupiah. Japanese firms manufacturing home electric appliances are responding flexibly to the crisis by reducing production or raising the price of locally appliances produced. At the same time, they are moving jobs away from domestic-oriented activities toward export-oriented activities. The situation facing the carmakers is particularly grim. Like local firms, they are having to consider shortening hours of operation, long-term plant shutdowns, and overhauling their operation systems. Japanese firms producing construction vehicles and metal processors have already been laying off local workers.

The effects of the Asian currency crisis have so far been relatively small in the Philippines, at least in terms of the major economic indicators, such as the real gross domestic product. However, Japanese firms will tailor their production to the product market. Home electronics firms are briskly exporting their products to European countries which have been fairly immune to the current crisis. With firm export markets, these plants are running at top speed. On the other hand, they are having to drastically alter production plans for the

products they exported to Southeast Asia. Moreover, Japanese auto manufacturers in the Philippines are experiencing financial difficulty as those in Indonesia. They are now struggling to adjust their inventories as a result of their production levels being halved. Some have had to close plants or to dismiss local employees.

## Public Policy

### **"The Managerial Workers' Union is a Legitimate Labor Union," Central Labour Relations Commission Says**

The CSU Forum (the managerial workers' union at the large adhesive maker Cemedine) had complained of unfair labor practices, claiming that "Cemedine had not complied with its request to enter collective negotiations over the introduction of allowances for managerial workers." On April 13, the Central Labour Relations Commission (CLRC) ruled in favor of the order by Tokyo Local Labour Relations Commission, and ordered Cemedine to deal with the CSU Forum as a legitimate labor union and to comply with the union's request to sit down at the bargaining table. This is the first time that the CLRC has recognized a managerial workers' union as a legitimate labor union.

When Cemedine decided to extend the retirement age until 60 in 1983, it introduced a system whereby managers from section chiefs on up would be called "staff managers" but not have any subordinates when they reached the age of 56. Under the system, the company would cut all allowances for those employees and offer no further annual wage increases for staff managers. Unhappy with the new system, the managers set up the CSU Forum in 1991 to pressure management to alter the system. The union sought to negotiate to improve the treatment of its members. The company, however, refused to sit down at the negotiating table, arguing that the managerial workers' union was not a legitimate labor union. In 1994, the CSU Forum filed a complaint that Cemedine had engaged in an unfair labor practice to Tokyo Local Labour Relations Commission. At its first meeting, the Commission judged that the CSU Forum was a valid labor union as it did not include executives, managerial workers responsible for human resource management or those having authority with respect to confidential corporate matters (people who should not be labor members under the Trade Union Law). Objecting to this decision, the company appealed to the CLRC. The CLRC also judged that the CSU Forum did not involve "those who represented the interests of the employer" and should thus be considered as a legitimate body.

It is still rare in Japan that workers in management positions are unionized. However, at many companies middle-management staff have become easy targets in restructuring exercises, which involve personnel cuts when firms have to trade out of an economic slump.

Many observers predict that an increasing number of middle-management workers will unionize or join existing unions.

## Special Topic

### Re-employing Japanese Women - Female Labor and Sustained Support -

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#### 1.0 Introduction

In this paper "re-employment" is used to refer to the situation whereby a company rehires someone who used to work for it. In the process of changing jobs, it could happen that one ends up with the company for which he or she previously worked. Usually, such cases occur as an unforeseen outcome of market processes and are not called "re-employment" in this paper. This article concerns the re-employment of women as part of a conscious strategy of management to retain female labor force. It is the result of a conscientious decision to give special consideration to women who previously worked for the firm, but resigned for pregnancy, childbirth, child care, etc.<sup>(1)</sup> The re-employment of women is one approach to the peculiarities of the Japanese labor market and to the Japanese patterns of employment management. Today, Japan's corporate personnel system is undergoing a fundamental change. In that context systems to re-employ women deserve special attention.

#### 2.0 Women's Careers and Re-employment

Many working women find it difficult to continue working because of family responsibilities, such as childbirth, child care, the need to look after family members. There are three responses. Some women wish to retire completely from the labor force. The "continuation type" decides to continue working, and copes with the difficult problems which arise. In this case, the support systems to balance work with family lives (e.g., provisions for child care, family care, and shorter hours to work) become important. The third might be called the "suspension type". This type seeks a more extended absence from work such that it becomes necessary to resign.

She withdraws from the workforce temporarily, and then concentrates on the pressing

problems at home before returning to work. When women resign from their companies to deal with their immediate problems at home and those problems are then resolved, the question of their reentry to the labor market becomes an issue.

When a re-employment system is in place, the employer recruiting and hiring personnel gives special consideration to women who previously worked for the company but left for specifically approved reasons (e.g., pregnancy, childbirth and child care). It is sometimes difficult to delineate clearly between re-employment and the continuation type. In both cases, there is continuity in that women return to the same companies after a period off work. The continuation type that returns to the same company after taking a leave for child care or family care but does not interrupt her employment status. In other words, she continues to be an employee while on leave. The woman to be re-employed, however, gives up her status as an employee, and her period of leave is less regulated and is often longer. Re-employment, therefore, might be also deemed as an "intermediate type" between the continuation type and the suspension type.

In recent years, the need to improve the arrangements for female workers who have to bear family responsibilities in the course of their employment has received growing attention since the Equal Employment Opportunity Law (EEOL) was enacted. Re-employment has aroused the keen interest of female students who often ask questions about the possibility of re-employment when they attend briefing sessions which prospective employers hold for college graduates. For female students, the existence of the re-employment system is an important factor in choosing a company.

### **3.0 Re-employment and Leave for Child Care**

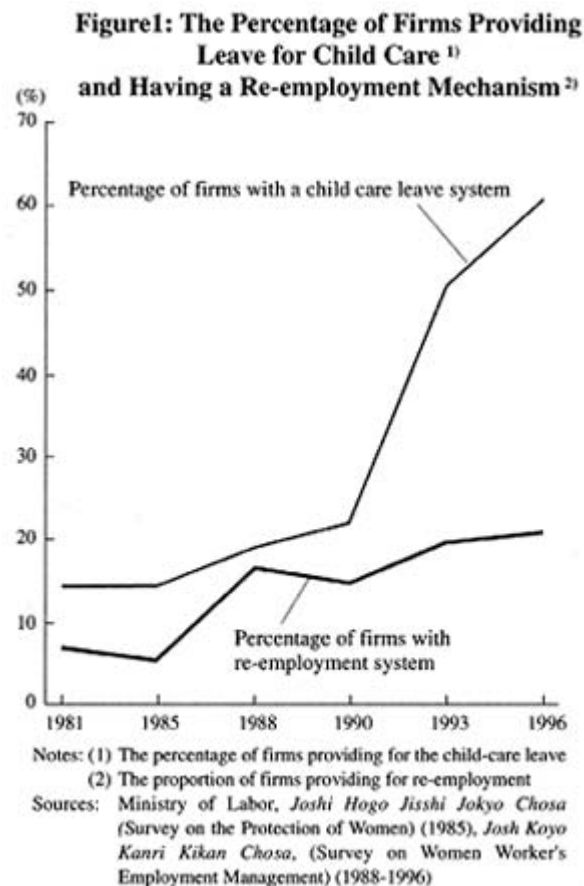
Leave for child care is one measure introduced for women who want to retain their employment status while away for childbirth and child care. Such leave is usually given for one year. However, the majority of women prefer to resign from their companies so that they can devote themselves fully to child care, and many would then like to return to the labor market after the initial years of child care - the period in which their attention is most needed in the home. Re-employment systems are designed for such women. The EEOL which came into effect in April 1986<sup>(2)</sup> did not clearly stipulate for leave for child care and family care. However, a special provision for re-employment was incorporated into the EEOL, and some early measures were introduced with regard to re-employment. From 1986, for example, subsidies for the promotion of women's re-employment were made available to companies that provide for such re-employment <sup>(3)</sup>.

According to the government data in Figure 1, 20.7 percent of firms with 30 or more employees had a re-employment system. This percentage is not high, considering that some



companies had a re-employment system fairly early on<sup>(4)</sup>. Of firms which provide for re-employment, only 44.5 percent have explicit provisions for re-employment in their office regulations. More than 50 percent of the firms simply have developed practices for re-employment in an informal manner.

Figure 1 shows the percentage of firms with 30 or more employees which provide for child care leave and re-employment since 1981.



The number of firms providing for child care leave increased rapidly in the 1990s, reflecting the impact of the relevant legislation. Although the government adopted a policy encouraging re-employment earlier than it had one for child-care leave, the use of re-employment systems is not high.

According to the Survey on Women Workers' Employment Management, just less than half of the business establishments using re-employment limit the number of employees who can qualify. As to the contents of the limitation, many firms will rehire only those who have worked a minimum number of years or are in a certain occupation. Just over 30 percent of the firms will rehire only those who resign for specified reasons, such as childbirth, child care or marriage. About 30 percent require that the rehired employee return to the firm within a set

period of time. The maximum length of separation is set at less than three years in the largest number of cases, but the period ranges from less than three years up to over 10 years. While 30 percent of the firms limit the age by which a former employee must return, the age limit varies greatly from one firm to another. Finally, 13.8 percent of the firms which re-employ treat their returnees as regular employees; 14.5 percent do so as non-regular employees; 52.7 percent give the returnee a choice; and 16.5 percent of employees decide on a case-by-case basis. In regard to re-employment, one-third of the firms have arrangements that also allow the former employee to return to other firms belonging to the same business group.

For women who wish to work again, re-employment at the same firm for which they previously worked is an attractive option at the present time when the labor market is tight and sufficient opportunities are not available for finding employment again. Moreover, re-employment allows an employer to recover the cost of the earlier investment made in the education and training of the employee before they left. Sixty percent of firms which re-employ indicate that the re-employment scheme had been "beneficial".

It is evident from the foregoing discussion that re-employment is implemented in a great many ways. Given the flexibility firms can have in introducing such a scheme, insight might be gained by inquiring into the reasons why more firms have not introduced such schemes.

#### **4.0 Merits and Problems of Re-employment**

Re-employment has several merits for working women. First, since they return to companies for which they previously worked, they are more able to fully utilize the skills acquired during their earlier period of employment. Second, since they can devote themselves wholly to childbirth and child care while they are "retired", they can avoid the difficult task of balancing work with family responsibilities. As child care leave at most firms limits the period of leave to a year or so, it is inadequate for people requiring a longer period of separation from work.

For employers, re-employment makes it possible to recover the cost of training that is lost when an employee resigns. Second, unlike with child care leave, re-employment is by definition premised on the fact that the employment relationship is severed. Accordingly, at the time of re-employment, employers can rehire the women back in ways which better fit their needs at the time. Third, since the people who retired are familiar with the firm and its processes their employment costs are lower than those of people coming to the firm for the first time.

Given the apparent attractiveness of re-employment, how does one explain the reluctance of firms to move more positively to introduce re-employment schemes? For those wishing to be

re-employed, the first problem is the uncertainty. Re-employment back into exactly the same job is not guaranteed. Second, the employee's work skills tend to be lost during the period of separation from work. For employers, changes in their environment also result in uncertainty about their ability to re-employ someone in an effective manner. Workers' skills tend to be lost or to become obsolete during the period of separation from work. Uncertainty with regard both to employment and to skills increases as the period of separation from work becomes longer.

At the same time, as leave for child care and family care becomes more common, and working hours are shortened and become more flexible, it is conceivable that the number of workers who find it necessary to interrupt their career for an extended period will decrease. Moreover, if the labor market becomes more fluid and less segmented in terms of the distinction between people who have previously been employed and those who decide to work for the first time (e.g., new graduates), the need for re-employment schemes will decline.

Given this situation, re-employment has an ambiguous status. On the one hand, re-employment schemes are seen as having significance only as a stop-gap measure until provisions for child care and family care leave and for shorter hours of work are in place. On the other hand, even after the enactment of legislation for child care leave, there will remain a significant number of people who will want to stay out of the labor force for a relatively long period of time. For these people, it is argued, the various forms of leave will not be sufficient.

The key variables will be (i) the extent to which the demands of work can be accommodated with the requirements of family life; (ii) the extent to which some forms of leave will allow for lengthy leaves of absence; and (iii) perceptions of the benefits of re-employment both for the employee and for the employer. The objective conditions will be shaped by the factors in (i) and (ii) above, but their impact will be mediated by the subjective perceptions (iii).

## **5.0 Factors Affecting the Use of Re-employment Schemes**

Re-employment schemes vary greatly from firm to firm. This is because the circumstances in which firms find themselves vary widely, and each firm needs to tailor the way it gives a commitment to re-employ persons to its own circumstances. However, for re-employment to become a more widespread practice, several preconditions will need to be met.

One condition is that employees come back with the skills that the firm needs. To give a commitment to rehire someone, the firm must be assured that the employee will come back with the skills it needed. This means that employees must be able to maintain their skills or

acquire supplementary skills while they are away. To the extent that there is room to doubt the adequacy of the returnee's skills, firms will be taking a risk if they unconditionally agree to take back an employee and give that employee the full rights of a regular employee (*seiki shain*). It may be that a number of firms will want to bring former employees back into the fold through a process of graduated steps, first hiring them as part-timers and then later employing them as regulars once they have proven themselves in some way. A third concern would be with the arrangements for paying the returnees. For firms that are more output oriented in their calculation of pay, there is a built-in mechanism that will automatically adjust the returnees' wage to her level of productivity. However, firms which weigh seniority heavily will need to think carefully about where the returnee is placed on the seniority scale and how further increases in wages over time so they relate to increases in that person's productivity.

Given these considerations, it is likely that we will see greater flexibility in the way managements implement their re-employment schemes as the realization spreads that such schemes are a useful tool for management. As the number of women in positions which require high levels of skill and specialist knowledge increase, one might surmise that there would be more schemes which allow for a transition from being unemployed to being a part-time and then a regular employee. There will also be pressure to shift from seniority-based pay scales to those that place more emphasis on productivity in one form or another.

## 6.0 Conclusion

With families having fewer children in Japan, there seems to be less reason for women to have extended periods of leave for marriage and childbirth. Accordingly, their period of employment after reentry to the labor market has become longer. Re-employment schemes and child care leave systems are an important means of keeping women in the labor force. However, various measures might be implemented in order that women might better stay in touch with their firm and its work environment during their separation from the firm. The exchange of information with their companies and training prior to re-employment are two activities that might improve the way in which women are retained in the labor force.

Attention might also be given to other forms of institutionalized support for working women which also facilitate their efforts to accommodate their work life and their family life. This article has approached the problem involved in meshing work with family from the perspective of working women with families. However, the problems discussed here are not limited to women. Leave for child care and to look after family members is available to men and to women. One emphasis in the future will be on mechanisms that allow employees and their families a diverse range of options.

Notes:

- (1) There are also re-employment systems for employees who retired because of firm's mandatory retirement rule. Such systems are not dealt with in this article.
- (2) The Child Care Leave Law was implemented from 1992, and firms will be required to have a family-care leave system in place on April, 1999.
- (3) Article 25 of the EEOL provides that employers have a *duty to endeavor* to implement a women's re-employment system for "women who resigned for reasons of pregnancy, childbirth or child care". When the EEOL was amended in 1995, this clause was deleted, and the requirements for re-employment were incorporated into the Law Concerning the Welfare of Workers Who Take Care of Children or Other Family Members and Leave for Child Care and Family Care. At the same time, "family care" was added to the specified reasons for resignation, and coverage was extended to include men.
- (4) Regarding the time of introduction, 5.9 percent of the respondent firms introduced an appropriate scheme before 1965, 3.8 percent, between 1965 and 1974; 22.4 percent, between 1985 and 1989; 18.6 percent, in 1990 and 1991; 33.6 percent in 1992 or 1993; and 8.8 percent between 1994 and 1996. About 7 percent of the firms did not respond.

## Statistical Aspects

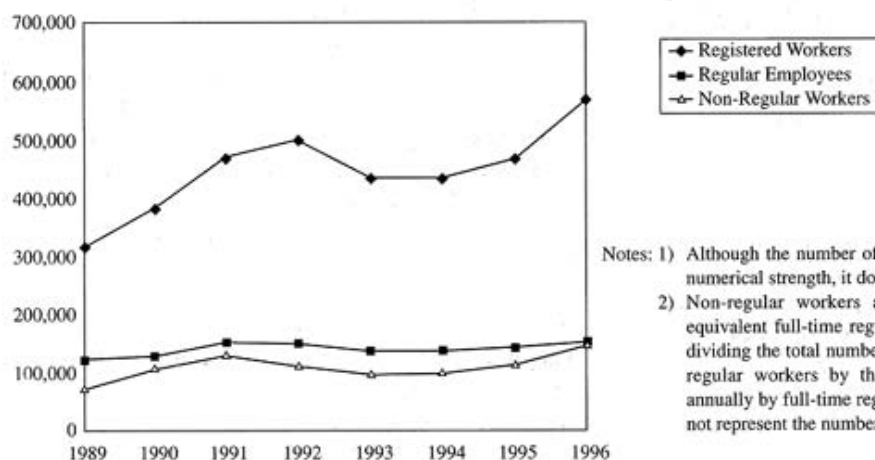
### Recent Labor Economy Indices

	March 1998	February 1998	Change from previous year
Labor force	6,745 (10 thousand)	6,657 (10 thousand)	22 (10 thousand)
Employed	6,468	6,411	21
Employees	5,353	5,355	6
Unemployed	277	246	43
Unemployment rate	4.1%	3.7%	0.6
Active opening rate	0.58	0.61	0.03
Total hours worked	156.7 (hours)	154.8 (hours)	0.1*
Total wages of regular employees	(¥thousand) 269.2	(¥thousand) 268.9	0.4*

Note: \*denotes annual percent change.

Source: Management and Coordination Agency, Ministry of Labour.

### Trends in the Number of Dispatched Workers



Notes: 1) Although the number of registered workers does not represent numerical strength, it does show an overall trend.

2) Non-regular workers are counted on a pro-rata basis as equivalent full-time regular workers. The figure is derived by dividing the total number of hours worked annually by all non-regular workers by the average number of hours worked annually by full-time regular workers. The resultant figure does not represent the number of workers.