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## HUMAN RESOURCE MANAGEMENT

### Outplacement Firms Expand Role: JIL Survey

A recent Japan Institute of Labour survey has found that more than half the firms with 300 or more employees have carried out labor shedding or other restructuring measures in the last three years, and that 60 percent of the employees who left such firms through early retirement schemes made use of private outplacement companies to find re-employment.

Conducted in January and February 2002, the *Survey concerning Business Restructuring and Employment* consisted of two parts: the first targeted 10,761 firms, and the latter five regular employees who were hired by each of these firms in the previous year after retiring early from another company. Usable replies totalled 1,683 for the company survey and 2,693 for the employee survey.

The company survey revealed that in the last three years 17.5 percent of the firms surveyed had carried out

labor cuts in Japan, another 25.4 percent were in process of doing so, and nine percent had plans to do so in future, showing that about half of all the companies surveyed had engaged in reducing their work force.

The majority of companies used attrition to cut back their labor force (81.6%); this was followed by the 76.9 percent that reduced their number of new hires, and one-third, or 34.2 percent, called for voluntary retirement, or setting up or expanding schemes for early retirement with special treatment. A mere 6.9 percent resorted to layoffs. (Multiple responses were possible.)

Concerning the effects of labor shedding, 51.5 percent noted a drop in employee morale and 45.8 percent reported an increase in working hours for the remaining workers, followed by improvement in worker productivity (35.9%) and quality workers were leaving the company (33%).

The most common criteria for voluntary or early retirement with special treatment were age (74.6%) and tenure (33.1%). More than 90 percent of the firms includ-

ed payment of an extra retirement allowance, as well as (i) contracting out counselling on, and introducing job searching to outplacement companies, (ii) providing special holidays, and so on. In terms of the number of employees who applied for such programs, 36.5 percent of the firms reported they had almost as many applications as expected, 14.0 percent had more applications than expected, and 16.4 percent received fewer applications than expected.

Concerning responses from the workers, the overwhelming majority left their previous job because they decided they wanted to retire (71.1%), followed by bankruptcy or business failure (6%), and expiry of labor contract (5.7%).

The reasons why employees applied for early retirement with special treatment included concern over the future of the company (38.7%), a good opportunity to take on a new job (37.9%), because the special treatment was generous (27%), and because the company recommended that I do so (25%). Among those who quit their previous job under the scheme, 53.7 percent had no intention of leaving the company before it called for early retirement, and 39 percent had previously been planning to do so. Almost half (43.5%) of those who applied for these schemes had no new employment prospects when they did so, followed by 28.2 percent who had almost decided their next place of work. The average amount of the additional retirement allowance was 15.2 times the monthly salary.

A majority of the respondents, 63.8 percent, reported that they used private outplacement companies for counselling, and 36.2 percent used these firms to help find

new jobs. Only a small proportion relied on their own companies for counselling (19.1%) or job introductions (14.9%). On average, most workers underwent counselling or job introduction help for 4.4 months. The most common method for finding new jobs was through job advertisements (25.1%), followed by notices at the Public Employment Security Offices (23.2%), and via business acquaintances or personal friends (18.9%). A mere 7.4 percent found jobs via their previous employer.

Switching jobs affected the wages of the majority of those surveyed. The highest proportion, 23.5 percent, experienced a reduction from 10 percent to 30 percent, 19.7 percent said their income remained the same, and 18.9 percent saw an increase from 10 to 30 percent.

About 70 percent of these workers felt satisfied with their current jobs, with 43.6 percent being more or less satisfied and 24.7 percent very satisfied. The larger the firm they joined, the more satisfied they felt. Those who found their new job via a business acquaintance or personal friend, or through private outplacement companies were more likely to feel satisfied with their current job.

### Most Firms Select which Workers They Will Keep after Retirement

In April 2001, the minimum age at which one receives some part of their public pension was raised from 60 to 61. However, the findings of the fiscal 2002 *Survey on Employment Management* conducted by the Ministry of Health, Labour and Welfare showed that not all firms extended the employment of their workers 60 years old and older in line with the change in the public pension

## Statistical Aspect

### Recent Labor Economy Indices

	June 2002	July 2002	Change from previous year (July)
Labor force	6,741 (10 thousand)	6,725 (10 thousand)	-58 (10 thousand)
Employed <sup>(1)</sup>	6,373	6,374	-78
Employees <sup>(1)</sup>	5,348	5,379	-11
Unemployed <sup>(1)</sup>	368	352	22
Unemployment rate <sup>(1)</sup>	5.4%	5.4%	0.5
Active opening rate <sup>(1)</sup>	0.53	0.54	-0.06
Total hours worked <sup>(2)</sup>	156.3 (hours)	158.3 (hours)	0.8
Monthly cash earnings <sup>(2)</sup>	468.0 (¥ thousand)	410.5 (¥ thousand)	-5.2

Notes: <sup>(1)</sup> Seasonally-adjusted figures.

<sup>(2)</sup> Figures refer to establishments employing five or more people.

Figures for July are preliminary (excluding those for the "Active opening rate").

US\$1= ¥118 (September 2, 2002)

Source: Ministry of Public Management, Home Affairs, Posts and Telecommunications, *Rōdōryoku Chōsa* (Labour Force Survey); Ministry of Health, Labour and Welfare, *Shokugyō Antei Gyōmu Tōkei* (Report on Employment Service), *Maitsuki Kinrō Tōkei* (Monthly Labour Survey).

system.

The survey targeted some 5,800 private firms with 30 or more regular employees; usable replies were received from 73.9 percent.

Payments under the Employees' Pension Plan — a public pension plan for salaried employees at private companies — consist of a fixed portion and a salary-linked portion. The age at which one can begin to receive the fixed portion of the pension is to be gradually raised from 61 to 65 between 2001 and 2013 (2006 and 2018 for females). Males who turned 60 after April 2001 are already feeling the effects of this new regulation. In addition, it has been decided that the minimum pensionable age for the salary-linked portion will be shifted gradually from 61 to 65 between 2013 and 2025.

According to the survey, almost all firms, 96 percent, have a uniform mandatory retirement age: 90.3 percent have set it at 60; 2.3 percent at 61 to 64; and 6.8 percent at 65 or above. Since fiscal 1998, if firms had a mandatory retirement age, it had to be set above 60, and most firms do so. A pressing issue for employees, therefore, is to continue working until they can begin to receive their pension benefits.

In this context, major electric manufacturers promptly adopted schemes to extend employment and for re-

employment (for details, see the March 2000 issue of the *Japan Labor Bulletin*), and major machinery and metal companies also are adopting similar schemes.

Employment extension means that firms continue to employ an employee even after they have reached the mandatory retirement age. Re-employment schemes involve situations where a firm rehires an employee after he/she has retired. According to the survey, 71.0 percent of the firms surveyed had either an employment extension or re-employment scheme; of these 14.7 percent adopted only the employment extension scheme, 42.6 percent implemented the re-employment scheme, and 13.7 percent had both in place.

However, where eligibility for these schemes is concerned, the largest proportion of the firms restricted this to "employees whom the firm considers to be necessary" (61.5% of the firms with an employment extension scheme, and 62.3% of those with a re-employment scheme). The percentage of firms which made the schemes open "in principle, to all who apply" was a mere 26.2 percent of those with an employment extension scheme and 21.5 percent for those with a re-employment scheme, giving the impression that, despite raising the minimum pensionable age, firms still have a strong tendency to "pick and choose" among workers eligible for

## Statistical Aspect

### Eligibility for Extension Employment Scheme

(%)

Firm size (no. of employees)	Ratio of firms with scheme	Eligibility			
		All who apply, in principle	Employees who meet the criteria	Employees the firm considers necessary	Others
5,000 or more	7.4	8.3	29.2	62.5	-
1,000 to 4,999	13.1	13.1	27.1	59.9	-
300 to 999	15.3	11.6	11.6	74.2	2.6
100 to 299	23.3	18.5	17.5	62.9	1.1
30 to 99	32.1	29	9	60.5	1.5
Total	28.4	26.2	10.8	61.5	1.5

### Eligibility for Re-Employment Schemes

(%)

Firm size (no. of employees)	Ratio of firms with scheme	Eligibility			
		All who apply, in principle	Employees who meet the criteria	Employees the firm considers necessary	Others
5,000 or more	72.7	17.7	26.6	51.9	3.8
1,000 to 4,999	66.4	11.5	22.6	64.1	1.8
300 to 999	61.9	11.9	15.3	71	1.7
100 to 299	62.3	18.1	18.1	61.9	1.9
30 to 99	53.4	24.4	14.1	61.3	0.2
Total	56.4	21.5	15.4	62.3	0.8

Source: Ministry of Health, Labour and Welfare, 2002 Survey on Employment Management.

the schemes.

### Two-thirds of Firms Conduct Training Off-site

According to a survey conducted in fiscal 2001 by the Ministry of Health, Labour and Welfare, in fiscal 2000, 64.9 percent of firms with 30 or more employees conducted Off-JT (off-the-job training).

The *Basic Survey on Ability Development* is the successor to and an extended version of the *Survey on Education and Training in the Private Sector* which was conducted annually by the Human Resources Development Bureau of the ministry. This new survey plans to cover on a continuous basis wider issues related to ability development. Where the previous survey targeted “establishments” with 30 or more regular employees, the *Basic Survey* covers “firms” with 30 or more employees and thus the results are not comparable with the results of the previous survey. The survey covered 10,000 firms in all industries across the country, and 30,000 of their employees. (Usable replies were returned by 2,176 firms and 5,658 employees; 21.8 percent and 18.9 percent, respectively.)

The larger the firm, the more likely it was to conduct Off-JT: 54.4 percent of the firms with 30 to 49 regular employees, but 90.8 percent of those with 300 or more regular employees. In terms of the most frequent Off-JT employed (multiple answers), “private education and training organizations” (32.4%) and “parent or related companies” (17.7%) were used when emphasis was placed on the rank of employee; “specialized bodies within the industry” (35.1%), and “private education and training organizations” (33.5%) where a particular skill was in question; and “private education and training organizations” (41.2%) and “specialized bodies within the industry” (26.7%) where the purpose and nature of the work were most important. Educational institutions such as “technical and other schools” and “university and graduate schools” were in all cases used by a mere one percent of the firms responding. The direct cost borne by firms for Off-JT averaged ¥24,600 per regular employee (for delegated training, participation fees, extramural and intramural personnel expenses).

The proportion of firms conducting OJT (on-the-job training) in a systematic way was 41.6 percent. Here again, there was a gap between firms of different sizes: 31.4 percent of firms with 30 to 49 regular employees, as against 71.9 percent of those with 300 or more regular employees.

Concerning assistance to employees who were pursuing additional training on their own, 60.5 percent of the firms surveyed said they “financially supported their employees with fees for educational courses and the like;” 46.3 percent “provided information concerning, for example, training courses outside the company, correspondence training courses, and libraries;” and 33.9 percent “gave thought to working hours in order to make it

easier for workers to spend time training.”

The proportion of the workers surveyed who had received Off-JT was 35.4 percent; broken down by gender this represents 38.8 percent of the male respondents and 27.3 percent of the female. In terms of educational level, 31.3 percent were junior high or high school graduates, while 45.1 percent were university or graduate school graduates of science courses.

The proportion of those who worked toward bettering their skills on their own was 37.3 percent. The most common methods were studying through radio, TV, technical books, the Internet and so on (41.0%); followed by participating in courses or seminars run by private education and training organizations (24.1%); participating in study or research groups outside the company (21.4%); and participating in voluntary study or research groups within the company (18.5%), (multiple answers possible).

Asked about the problems they encountered when trying to pursue self education programs, the largest proportion, 43.0 percent, felt they were too busy to spare time on self-improvement, followed by those who felt it cost too much (25.9%), and those who found it impossible to pursue because of the inability to take days off or leave the office early (18.3%), (multiple answers possible).

## LABOR-MANAGEMENT RELATIONS

### Many Young Union Members Not Interested in Leading Position

The Labour Research Council, a body set up by Rengo-affiliated unions, has compiled the results of a survey conducted from October 2001 to April 2002 concerning the next generation of union leaders. The survey targeted young union members in their 30s up to age 44 who are likely to be at the center of union activities within five to 10 years. Usable responses were received from 2,189 people. The primary interest among young union members was in their work, and one-third answered that they had no wish to serve as an union executive.

Ninety percent of the respondents were men whose average age was 33.6; the average age for women was 30.4. One-quarter of the men were blue-collar workers, while the remaining three-fourths were white-collar or clerical. More than half the respondents belong to unions with memberships of 1,000 or more. A little more than 20 percent held the post of committee chairman or another major position within their unions, and, together with those engaged exclusively or mainly in union activities accounted for one-fourth of all the respondents.

The most common reasons for taking up executive roles in the unions (multiple answers allowed) included: to be exposed to a broader range of information and opinions (58%), there was no reason to refuse (49.1%), to acquire abilities which are difficult to learn in the workplace (24.5%), and to reflect views from their own workplace in union activities (21.1%). Broken down by age,

more than half of those 29 and younger reported that there was no reason to refuse, whereas many people between the ages of 40 to 44 said they wanted to improve working conditions, indicating different perspectives by age.

Forty-five percent responded they “felt” or “more or less felt” a sense of fulfillment from carrying out their union activities, whereas 21.5 percent “were not fulfilled” or “were not really fulfilled.”

While about half were satisfied with their involvement in union activities, a somewhat different aspect was revealed when asked if they wished to continue serving as a union executive. Only 32.9 percent answered they wished to continue or were willing to continue if no one does, while 35.1 percent responded they didn’t know, and as many as 31.3 percent acknowledged they do not wish to continue.

This tendency to reject leading positions in the labor movement was reflected in the answers given to the question “Where would you prefer to demonstrate your abilities?” Only 7.4 percent responded that they would like to demonstrate their abilities through union activities, whereas 52.8 percent said in their own work, 23.8 percent replied in a company or local government, and 4.8 percent chose in activities contributing to society.

Concerning problems labor unions face, an overwhelming proportion, 80.3 percent, felt that nobody is ready to lead. This was followed by 76.6 percent who cited a lack of enthusiasm among young people for improvements via the union, 75.6 percent said the problem was that executives and the rank and file do not think in the same way, and 74.9 percent said low rate of participation in union meetings. All these highlight the declining centripetal force of labor unions.

Future tasks for the unions were seen as reconciling demands between work and family, (83.7%), followed by better communication among union members through, for example, making use of the Internet, building unions that the general public trusts, and shorter working hours.

### **Rengo Will No Longer Set Basic Pay Raise**

The *shunto*, or spring wage offensive, is a united campaign mainly for higher wages launched each spring by labor unions representing a variety of industries. Industrial unions coordinate strategies (for example, which unions will negotiate first, and so on) and guidelines for pay hikes (though the decisions and agreements are made by individual enterprise unions). Within the same industry, negotiations take place simultaneously to compensate for the lack of individual bargaining power.

Thus, the *shunto* is regarded as a symbol of the labor movement. So far, the primary agenda of the negotiations has been focused on pay hikes: regular wage increase on an annual basis in accordance with tenure, and a basic

pay rise to maintain and improve the workers’ standard of living. As for the basic pay rise, the uniform target has been set by Rengo (Japanese Trade Union Confederation) and other national centers used as criteria. Every year the central committee of Rengo decides the *shunto* policy for the coming spring, then during the following February unions submit their requests to management. In mid-March management in large firms responds, and in April negotiations are concluded at major firms. Labor-management negotiations in small and medium-sized firms lag behind those in large firms, not reaching settlements until around May or June.

The nature of the *shunto*, which began in 1956, has been changing since the mid-1990s when the after-effects of the bursting of the “bubble” were first being felt. In particular in 1995, the Kobe earthquake and the strong yen hurt the public sector and manufacturing industries, and began to undermine labor-management negotiations. Around the same time, Nikkeiren (Japan Federation of Employers’ Associations) started to press for a “structural reform of *shunto* negotiations,” emphasizing the need for (1) wage determination at individual firms, (2) total labor cost management and (3) ability- and achievement-centered wage determination. In fact, as seen in this year’s negotiations at Toyota Motor Corporation where management proposed no basic pay rise, the current position of many firms is “to give priority to maintaining employment, and to offer a pay rise when it is affordable, but in the form of bonus or lump-sum payments.” During this year’s *shunto*, in the middle of a deflationary economy, quite a few unions withdrew the demand for a basic pay rise at the beginning of negotiations and, as seen in the decision of Tekko Roren (Japan Federation of Steel Workers’ Unions) and Denki Rengo (Japanese Electrical Electronic & Information Union) to hold wage negotiations basically every two year, are aiming at a shift away from the conventional *shunto* focusing on wage increases.

With the decentralization and transformation of the *shunto*, Rengo’s role is shifting in the direction of solving common problems shared by all unions and workers. In line with this, a Rengo central committee meeting held on June 26 and 27 in Okinawa proposed that they will not set a uniform basic pay rise going into the next *shunto*. Instead, they plan to shift their focus to tasks shared by affiliated unions, such as “improving working conditions of part-time workers,” “stricter control over working hours,” and “maintaining wage curves (the part representing regular wage increases).” They also plan to set up new action policies in time for the October central committee meeting.

It will be interesting to see how far they are actually able to reflect the voice of workers in policies and systems at a time when union membership is dropping.

## Special Topic

# Does the ¥1.03 Million Tax Exempt Limit Depress the Hourly Wage of Part-time Workers?

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The ceiling of ¥1.03 million for tax-exempt annual income has been a source of controversy for its possible role in distorting the part-time labor market in Japan. Some have argued that the ¥1.03 million ceiling depresses the hourly wages of part-time workers (Higuchi, 1995; Kantani, 1997; Nagase, 1997b). In these studies, the authors provided data that part-timers who target their income toward the ceiling receive lower hourly wages than other part-timers. Based on this observation, they argued that the ceiling is responsible for the low wages of part-time workers.

In this essay, the author argues that the logic behind these interpretations may be questionable, both from a theoretical and empirical standpoint. The specific reasons are: (1) the time-series movement of hourly wages and working hours of part-timers seems to contradict the above reasoning, and (2) the low wages for those who constrain earnings can be understood by an alternative explanation, an example of which is the effect of social insurance premiums on net wages. The remainder of this essay takes up the hypothesis that the ceiling depresses hourly wages. Then, evidence that contradicts this hypothesis is presented, and finally, an alternative explanation for this phenomenon is given.

## 1. Why the Ceiling Depresses Part-time Wages

Higuchi (1995) used the *General Survey on Part-time Workers' Conditions* (then the Ministry of Labour, hereafter referred to as *GSPWC*) data of 1990, and found that the average hourly wage of part-timers who constrain earnings toward the ceiling is five percent lower than that of part-timers who do not target their earnings toward the threshold. He interpreted this as follows: "Those who try to restrain their earnings have less pressure to demand wage raises than others, or, they do not mind working at firms that pay low wages." Kantani (1997) used a similar method with 1995 *GSPWC* data, and showed that the hourly wages of those who constrain earnings is nine percent lower than those who do not. Nagase (1997b) argued that part-time wages are "sustained by the minimum wage from below, and depressed by the ¥1.03 million ceiling from above," so the ceiling lowers the hourly wages of part-time workers.

## 2. Fixed Hours Hypothesis

Higuchi used the "fixed hours hypothesis" to explain the connection between the ceiling and the low hourly wage. The argument is as follows: Part-timers are expected to work a fixed amount of hours and have little discretion over their hours. Therefore, those who try to keep their earnings below ¥1.03 million work at a wage equal to 1.03 million divided by

the "fixed" annual working hours. Such a wage will be low, and therefore, this brings about a low wage level for part-time workers<sup>(1) (2)</sup>. However, it is difficult to square this explanation with the time-series movement in hourly wages. Kantani (1997) and Abe (1999 and 2000) use *GSPWC* data (1990 and 1995) which shows that the working hours of part-time female workers declined from 1990 to 1995. During this period, the ceiling increased only slightly, while the minimum wage rose. If many employers set the hours of part-time workers as the fixed-hours hypothesis suggests, it is unlikely that the hours of part-timers would decline substantially in a short period.

Furthermore, Abe (1999, 2000a and 2000b) shows that the growth rate of part-time wages is roughly the same as the growth rate of regional minimum wages, although there are some variations across prefectures<sup>(3)</sup>. Regional minimum wages increased by 24 percent from 1990 to 1999. On the other hand, since the ceiling barely changed during this period, the combination of fixed-hours hypothesis and the constant ceiling would imply that the nominal wages of part-timers stayed constant. The evidence shows that, on average, hours declined and wages rose, which seems to contradict the fixed-hours hypothesis.

There are two other aspects of Higuchi's fixed-hours hypothesis that seems to contradict the evidence. The first is the employers' response to employees' behavior to restrict earnings. Higuchi (1995, page 204) wrote:

What happens if the hours of part-timers are fixed? We often hear that employers have problems in the busy period of December because employees do not come to work since they want to restrain their earnings below ¥1.03 million. ... Some part-time workers may work without pay, because otherwise the firm might terminate their employment contract, or because they feel bad the firm is having difficulties due to a shortage of workers.

The workers who come to work end up receiving no pay for the extra hours worked, so the hourly wages fall. However, it is hard to imagine that employers cannot predict that workers who plan to constrain their hours may not work many hours in December. Based on interviews with several firms, Wakisaka (1998) listed examples of how employers

organize the work schedules of part-time employees in order to accommodate the need to constrain their earnings. The following are examples. In the first example, a firm hires part-timers who work half-day to complement the work of part-timers who constrain their working hours. In the second example, a firm lists cumulative wage payments (including bonuses) from the beginning of the year on the monthly paycheck. Since it is necessary to assure a sufficient workforce in December, a firm will make a list of employees whose earnings might exceed the threshold, and distribute it to branch heads several months in advance, who then readjust schedules so part-time workers can keep their annual earnings below the threshold.

The following also suggests that employers do take into consideration the behavior of their employees in limiting hours to constrain annual earnings. The help-wanted advertisements for part-time work often include expressions such as, “the Special Exemption for Spouse is applied to this job,” “this job is for those who want to maintain their dependent status,” or “work days are negotiable if you wish to keep your dependent status.” These employers try to attract workers who will adjust their working hours in order to keep their earnings below the threshold; thus, for those employers, the ¥1.03 million ceiling is well known. These advertising expressions are most common for banks or financial firms, but other industries use them as well. The part-time wages in these industries are not necessarily low, compared with those in other industries. It is difficult to imagine that employers who post such advertisements would not predict that employees will be absent from work in December in order to cap their earnings. Rather, they probably propose schedules that accommodate their employees’ desire to constrain earnings.

### 3. An Alternative Explanation

It is possible to explain the hourly-wage differential between those who constrain earnings and those who do not without relying on the fixed-hours hypothesis. An example of other explanations is social insurance premiums. Unless the labor supply is perfectly inelastic, labor supply responds to the wage rate. If nominal wage rates are the same, the after-tax (net) wage of those who pay social insurance premiums will be lower than those who do not pay premiums. If the labor supply of social insurance participants is not perfectly inelastic, it is necessary to set their nominal wages higher than for non-participants in order to induce a labor supply of participants. Workers who do not constrain earnings tend to participate in social insurance programs more often than non-participants, so the after-tax wage of participants is not necessarily higher than that of non-participants. For example, the nine percent premium found by Kantani may not be sufficient to offset the cost of social insurance premiums.

#### Notes:

<sup>(1)</sup> Kantani (1997) used this hypothesis as well. In particular, he showed that part-time workers reduce their hours by working fewer days rather than fewer hours per day, arguing that, “it is probably difficult to shorten the hours per day any further.” On the other hand, Nagase (1997a) argued that part-time workers can choose their hours in a flexible manner, while full-time workers cannot, thus, part-timers are not constrained by fixed hours. Therefore, Nagase probably did not base her argument on the fixed-hours hypothesis.

- <sup>(2)</sup> Theoretically, it is hard to justify the argument that the ¥1.03 million ceiling depresses hourly wages without assuming a monopsony by employers. If leisure is a normal good and the labor market is competitive, it is difficult to expect lower hourly wages for part-timers who face the ceiling: workers would prefer fewer hours with a higher hourly wage. Furthermore, whether the regional labor market for part-time workers is monopsonistic or not is probably unrelated to whether the ¥1.03 million ceiling exists, or whether the value of the ceiling is adjusted at the same rate as the wage growth.
- <sup>(3)</sup> Kantani (1997) and Nagase (1997b) argued that even though employers try to raise wages of part-timers with long tenure, part-time workers do not welcome the raise because they worry it will make it difficult to keep their earnings below the threshold. If this phenomenon is widespread, wages of incumbent workers do not increase much (in nominal terms). However, as shown above, the average wage of part-time workers increases in nominal terms, and part-time wages are above the minimum wage. If the wages of incumbent workers do not rise, the overall increase in part-time wages is likely to be caused by the high wages of the new entrants, or by the wage increase at the turnover (for those who changed employers). However, on the contrary, Nagase (1997b) argued that the reservation wages for new entrants are low.

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## Special Topic

# Wife Allowance and Tax Exemption behind Low Wages for Part-time Workers

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## 1. An Ever Widening Wage Gap

An increasing number of workers are engaged in part-time employment, comprising 39 percent of all female workers in 2001, whereas the comparable figure 15 years ago was only about half that. Despite the growing number of such workers, the gap between the average wage of full-time and part-time female workers has widened in the last 20 years. In 2000, the hourly difference increased to as much as around 56 percent, including bonus payment. Such a trend is puzzling as demand for part-time workers is relatively high, and it contradicts results of case studies by researchers such as Takeishi (2001), who discovered an increased productivity and work experience among part-time workers. If demand is higher for part-time workers than for full-time workers, a simple economic theory predicts that the wage gap between the two should narrow in the long run. Therefore, the reverse trend needs to be scrutinized in the face of the increase in the number of part-time workers.

## 2. Features of Part-time Workers

Regular workers, *seishain*, have a work contract for an indefinite period, receive a monthly salary, work full-time, and often receive twice-yearly bonuses, severance pay and other fringe benefits. Previously, the majority of newly-graduated youth entered the workforce as such “regular employees.” For example, 95 percent of new graduates in 1990 were hired as regular employees, however, that figure dropped to 80 percent in 2001.

The different types of non-regular workers include part-time workers, *arubaito* (temporary), *shokutaku*, contract and dispatched (agency) workers, with part-time workers comprising the largest share. An interesting point is that “part-time” workers sometimes work long hours, as much as regular workers even though they are internally classified as “part-timers.” The *Labor Force Special Survey 2001* published by the Statistics Office defines one to be “part-time” when they are called as such at the workplace. According to data from the *Labor Force Special Survey*, there are 11.3 million “part-time” employees, of which 30 percent worked more than 35 hours a week. While the greatest number of part-time workers are still married women, more men over 60 years old and in their early 20s, as well as single women are turning to part-time work.

## 3. What Mechanism Keeps Part-time Wages So Low?

Is the large wage gap between full and part-time workers explained by differences in human capital? Osawa (1993) showed that return on tenure is much lower for part-time

workers compared with regular workers. In addition, Nagase (1995) pointed to the interesting differences in the wage structure between sexes. On the whole, occupation and educational difference were more pronounced in wage variations for male part-time workers compared with female workers. Twenty-five percent of the variation in wages was explained by eight occupational dummies for men while the respective figure was only 15 percent for women; about the same percent was explained by regional wage level difference for women, and not for men. In other words, the wage variation was quite small and near the local minimum wage level for part-time females but not for males. The findings showed that human capital differences played a smaller role in part-time wages for women than for men.



## 4. Tax and Social Security Regulations behind Low Wages

The author’s hypothesis is that the distortion caused by the tax and social security systems and enterprise practices that aim to take care of low earning housewives not only places a cap on the work hours of married women, but also depresses the wage rate of part-time women workers.

Those whose annual earnings are below ¥1.03 million do not have to pay national income tax. The 10 percent progressive national income tax, and five percent progressive prefecture income tax start around this limit. If a single person makes more than ¥1.03 million, he or she would fall in the 10 percent bracket. But, if one is married to a person who already falls in the 20 percent bracket for national income taxes, the net household tax rate for both national and local taxes will be about 45 percent for additional yen over 1.05 million a year due to the decline in the spousal deduction. Moreover, a dependent spouse of a wage earner is covered by the working spouse’s social insurance, pension, health and nursing-care programs, without paying her own premium. The premium will be a levied lump sum of about ¥0.2 million, depending on the municipality, once the wife’s annual income reaches ¥1.3 million. In addition, most private enterprises incorporate spousal allowances in the main-income earners’ pay check, estimated at around ¥0.1 to ¥0.2 million per household a year. In more than half the cases, this allowance ends once the spouse is no longer a dependent, or starts to pay tax on her earnings. Due to these various costs, the income benchmark of ¥1.03 million is often called “the ceiling on income for



part-time workers.” Many women target their income below the ceiling, and such behavior also may depress the wage rate of married women.

Let us consider some examples. Suppose a worker is paid ¥800 per hour, near the national average for part-time workers. She can work up to 1,288 hours annually and still keep her income below the annual earnings of ¥1.03 million. This would result in about 24.5 hours of work per week. Suppose her manager appreciates her skill and effort, and considers a pay raise to, say, ¥1,000 per hour. This will result in an increased income of ¥255,000 if other things remain equal. However, the tax increase and allowance cut can easily surpass the extra money resulting from the pay-raise, so the likely outcome is that the worker will cut back her workweek, say, by five hours in order to keep her income below ¥1.03 million. Ironically, this manager will find that his pay raise, instead of “encouraging” this worker to work harder, resulted in a quality worker voluntarily cutting her working hours. If a manager believes that such a thing will happen, he will be hesitant to raise the wage of part-time workers though they be of high quality. The lump sum payment involved in “crossing the barrier” has increased, moreover, due to the introduction of the national nursing-care insurance system and an overall increase in social insurance premiums for pension and health.

Accountants suggest that working wives keep their annual income within ¥1.03 million or over ¥1.7 million, but not in between<sup>(1)</sup>. In the case of our part-time worker who is paid ¥800 per hour, she will reach the “ceiling” if she worked 24.5 hours a week, and it is better if she does not work more hours or if she works over 41 hours a week, which is full time. It is not surprising that many married women choose to shorten their working hours. The findings of the *General Survey on Part-time Workers’ Conditions* and other statistics show that married women tend to increase their working hours as their youngest child grows older, but this “ceiling on income for part-time workers” makes them hesitant to work full-time, especially when their spouse’s income is high. More than half of households with salary incomes (67.5%) said that the relaxing of tax and social security rules would result in more women wanting to increase the number of hours they work<sup>(2)</sup>. Another survey showed that the most common reason that a dependent spouse, as defined in the National Pension Plan, had for not working on a regular basis was childcare for women in their 30s and younger, but for those in the 44 to 54 age bracket, the main reasons were to claim the tax exemption or because they could not find a regular job, both accounting for 20 percent of the responses<sup>(3)</sup>.

### 5. Changes in Wage Structure Related to the Ceiling

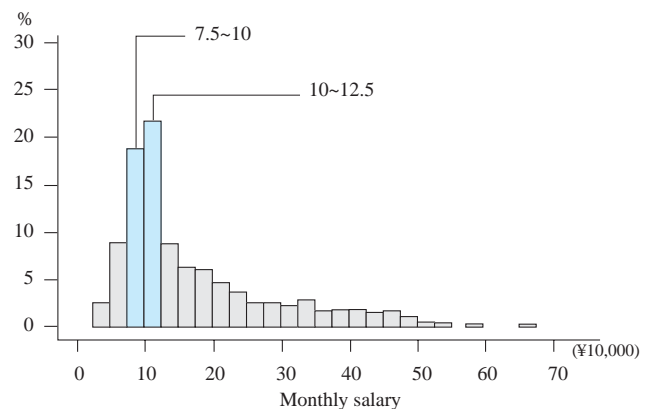
Over the years, the “ceiling” did not rise as much as the average wage rate of part-time workers. As a result, the percent of part-time workers who replied that they adjusted their working hours for tax or other comparable reasons was 30 percent in 1990, but increased to near 40 percent in 1995 according to *General Survey on Part-time Workers’ Conditions*. Correspondingly, and as seen in the previous section, the average number of hours worked by part-time employees decreased, and the number of workers who worked about 20 hours per week increased<sup>(4)</sup>. Because more workers were constrained by the ceiling, firms reacted by offering wage and work-hour packages, such as so much yen per hour up to the tax exempt limit, or a higher hourly pay of this much yen for

working longer specified hours, and so on.

Comparing the 1990 and 1995 surveys, hourly wages for part-time workers who worked many hours shifted upwards, which was consistent with economic prediction when the ceiling constraint became stronger. However, the difference in hourly wage levels between part-time workers who are exempt from paying tax and those who are not was estimated to be somewhere around six percent. (Nagase [1997] estimated figures based on 1990 data.) This shows that a premium is paid to workers who work longer hours, but their wage level still falls short of what regular employees earn. In the long run, if workers do not receive equal pay for equal work, companies would not be able to recruit new workers. However, this equalizing force does not seem to have affected the wage difference between part-timers who work longer hours and regular employees. Now, why is this?

Perhaps the reason lies in the fact that higher quality workers are often those who are willing to confine themselves to shorter working hours. The cost of exceeding the tax exemption limit is more expensive for women married to high-income earning men. Women with higher educational qualifications — a potential pool for qualified workers — are more likely to be the spouse of men receiving such better treatment. Thus, the labor market for part-time workers is subject to “adverse selection,” whereby high quality workers work shorter hours and are less committed while those who cannot become regular workers stay as part-time workers, working longer hours. Results from the *National Survey of Family Income and Expenditure* showing the distribution of monthly income of “wives,” not just those who work as part-time workers but regular employees and others as well, can be found below. The two peaks visible in Figure 1 correspond to tax-exempt and social security exempt monthly income, showing the extent to which this system affects the work behavior of married women. On the other hand, when the wage distribution of wives of low income earning husbands is separated out, there is no similar hike since such a spouse does not gain much from income targeting and work hour curtailment.

**Figure 1. Income Distribution of Women Married to Wage and Salaried Workers**



**Source:** Tables made using 20 percent random sub-samples from the *National Survey of Family Income and Expenditure*, 1994 under the “Project of Exploring New Frontiers in Statistical Analysis using Micro Data Sets,” in which the author participated.

### 6. Future Tax and Social Security Systems

The system whereby married women with incomes lower than a certain level are entitled to exemptions in social insurance premium or tax payments is not unique to Japan. Nevertheless, the problems and distortions caused by the system is on a much larger scale in Japan than in other countries.

Still, there is a positive side in any system. Since the spouse of a high income earner works less hours than her counterpart in a low income household, the system serves to equalize the disparity in household income. Because quality workers often curtail their work hours, less qualified workers manage to find work in the recession, creating a kind of work-sharing. Despite all this, it is high time the system was thoroughly revised. More workers who need to make their own living are entering the part-time labor market as the avenue to regular employment is narrowed. Housewives who accept the lower wages in effect bring down the wage levels of young non-standard employees and divorced women. Regular employment is dwindling; if changes are not made, a smaller number of regular employees will have to bear heavier tax and social insurance premium burdens, further narrowing access to regular employment.

**Notes:**

<sup>(1)</sup> According to the *General Survey on Part-time Workers' Condition* (1995), 30 percent of part-time female workers paid on a monthly basis earned ¥1.8 to ¥1.92 million annually, comprising one of the major income groups. Those who earned ¥0.96

to ¥1.08 million a year formed another major income group. These results are consistent with the analysis in the main text.

<sup>(2)</sup> FY 1997 *National Survey on Lifestyle Preferences*.

<sup>(3)</sup> "Actual Situations of Category 3 Insurees (Females)" (1997), the Ministry of Health, Labour and Welfare.

<sup>(4)</sup> In fact, if the average hourly wage is ¥600, the worker needs to work 33 hours per week to earn ¥1 million a year. This is close to a typical hourly wage and number of working hours in 1990. In 1998, the average hourly wage was ¥886 and the average working hours was 24 per week. These figures surprisingly accord with the calculated target of ¥1 million.

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**Feature**

## The 2002 White Paper on the Labour Economy: A Summary of the Analysis

On July 9, 2002, the Ministry of Health, Labour and Welfare released its *2002 White Paper on the Labour Economy*. The *White Paper* presents an analysis of recent employment and unemployment trends and backgrounds, along with international and regional comparisons. It also deals with mismatching in the labor market, labor productivity and wages, long-term unemployment, latent unemployment and excess employment. The following provides a chapter-by-chapter summary of the *White Paper*.

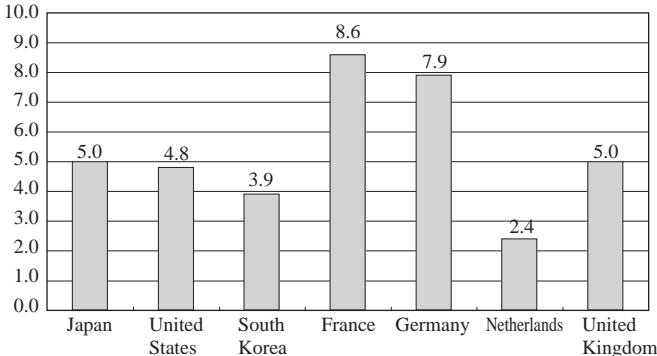
### 1. Gloomy Situation Continues

#### 1.1 Trends in Employment and Unemployment

The Japanese economy entered into recession in October 2000, and production levels subsequently fell to those of the 1987-88 period. Conditions in the labor market also became increasingly severe. The main features in 2001 were:

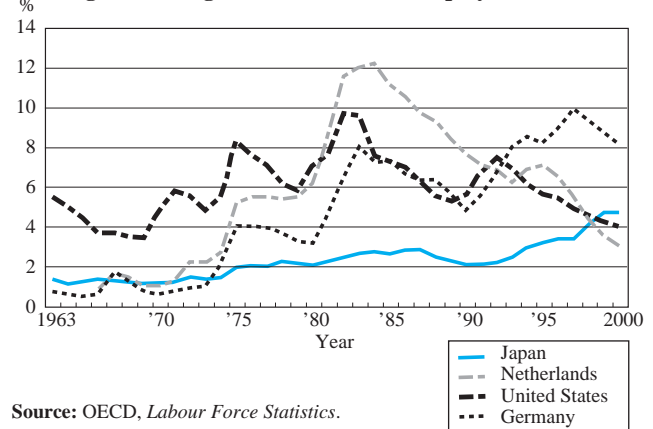
(i) A sharp drop in the number of employees from August onward, and the number of employed people fell steadily

**Figure 1. International Comparison of Unemployment Rates Using ILO Standards (2001)**



Source: OECD, *Main Economic Indicators*, 2002; *Employment Outlook*, 2001.

**Figure 2. Long-term Trends in Unemployment Rates**



Source: OECD, *Labour Force Statistics*.

through the year.

- (ii) The unemployment rate remained high, marking 5.5 percent in December.
- (iii) The number of new job openings fell throughout the year, the new job opening rate fell, and the active job opening rate remained flat.

Even though production levels bottomed out in 2002, the employment situation continued to remain gloomy.

### 1.2 Trends in Wages and Working Hours

Reflecting the slowdown and deterioration in economic activity since the end of 2000, employees' total cash earnings decreased. Less overtime resulted in a drop in non-scheduled cash earnings, while bonus payments and other special earnings continued to fall. Lower scheduled cash earnings has been attributed in part to the increasing number of part-time workers.

The total number of hours worked shifted downward due to reductions in both scheduled and non-scheduled working hours.

### 1.3 Trends in Prices and Employee Household Finances

Consumer prices continued to drop for the third consecutive year due to cost reductions and a slump in consumption. The stabilization of oil prices sent wholesale prices into a decline, emphasizing a deflationary trend.

Consumer expenditure in employee households declined for the fourth consecutive year, reflecting the sluggish growth in incomes and a lack of consumer confidence.

## 2. Unemployment Rates among Youth and Older Men

While unemployment rates in Western countries have tended to decrease in recent years, in Japan they continue to rise. Any further increase is likely to make Japan an "ordinary" country in terms of unemployment levels.

A special feature of Japan's unemployment is the higher rate among young people and older males. The high rate among youth is attributed to those who recently left high school or university, entered the labor market, but then quit their job. Behind the large number of job quits is a job market that has been on the decline since the latter half of the 1990s. The *White Paper* implies that repetitively changing jobs can be disadvantageous to workers in terms of skills formation, which can best be realized through continued engagement in the same job.

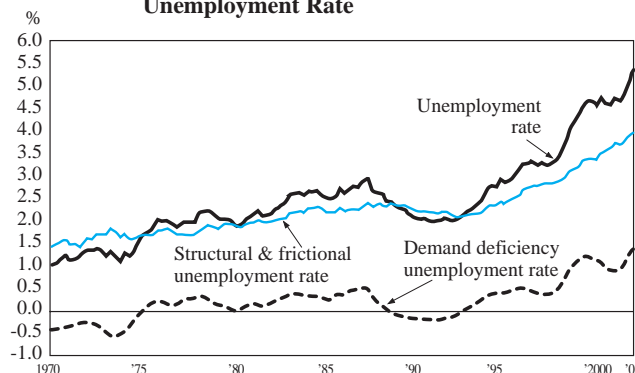
As a whole, the job participation rate in Japan is high by international standards, but not for women. One reason for the high job participation rate among Japanese males is the high rate for those men 55 and older, whereas the low rate for women is caused by the low rate among women with high educational levels. Regarding this, the *White Paper* notes that when women wish to re-enter the job market after a temporary absence due to childbirth or for other reasons, having a higher education is not necessarily beneficial. In recent years, the increase in the unemployment rate has exceeded fluctuations in the job participation rate because the tendency for workers to leave the labor market when demand decreases — which served to curb increases in the unemployment rate — has decreased.

## 3. Supply/Demand Mismatch Greater Outside Public Employment Offices

Estimates of structural and frictional unemployment and of demand deficiency unemployment suggest that the former was in an upward trend in the 1990s, particularly after the burst of the bubble economy, while the latter increased substantially in 1998 and 2001, reflecting the economic recession.

The success rate in finding a job for registered job seekers and the rate of sufficiencies to active openings recorded at Public Employment Security Offices do not necessarily give definite indications of an increase in mismatch after the collapse of the bubble economy. In other words, the rate of structural and frictional unemployment is likely to have been pushed up by a class of workers who do not make use of Public Employment Security Offices.

**Figure 3. Trends in the Structural and Frictional Unemployment Rate and Demand Deficiency Unemployment Rate**



**Note:** The demand deficiency unemployment rate = the unemployment rate - the structural and frictional unemployment rate.

**Sources:** Ministry of Health, Labour and Welfare, *Report on Employment Service*, and the Ministry of Public Management, Home Affairs, Posts and Telecommunications, *Labour Force Survey*; estimates compiled by the councillor in charge of labor policy at the Ministry of Health, Labour and Welfare

## 4. Productivity and Labor Costs

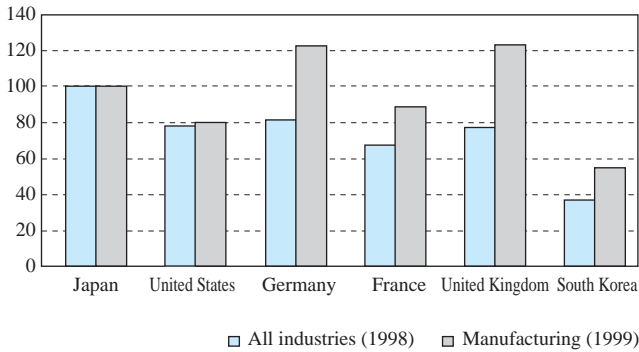
Japan's labor productivity (GDP per worker) is more or less the same as countries in Europe, but only about 70 percent that of the U.S., while unit labor costs in Japan are 20 to 30 percent higher than in either the U.S. or Europe. However, labor productivity in the manufacturing sector has steadily improved compared to other countries, and the unit labor cost has been on a downward slide, although, when exchange rates are taken into account, it has not necessarily fallen compared to elsewhere.

China and other countries in Asia have improved technologically, and Japanese manufacturers are no longer superior when wages and other costs are taken into consideration. Estimated wage differences in the manufacturing sectors show that, if the wage in Japan is 100, wages in NIES are 40 to 50, in ASEAN countries it is less than 10, and in India and China the figure is one to two. The rate of overseas production by Japanese manufacturers increased substantially, from 6.4 percent in fiscal 1990 to 14.3 percent (forecast) in fiscal 2001. The so-called hollowing out phenomenon will have a substantial impact on employment at

home.

As for the impact of domestic wages on employment, while wages of part-time workers have fallen substantially since 1998, those of regular workers have remained more or less the same, widening the wage gap between the two groups. Wage rigidity (a tendency for wages not to fall) is stronger among regular workers than among part-time workers, and it is possible that this is encouraging a drop in demand for regular workers and a shift towards demand for part-time workers.

**Figure 4. International Comparisons of Unit Labor Costs (in U.S.\$; Japan = 100)**



**Note:** The manufacturing figures for Germany are from 1997.  
**Source:** ILO, *Key Indicators of the Labour Market 2001-2002*.

**Figure 5. Comparison of Wage Levels in Asia (compared with Japan, yen based)**

Country	Japan = 100
Singapore	46.7
South Korea	37.4
Hong Kong	40.4
The Philippines	5.0
Thailand	4.5
Malaysia	12.6
Indonesia	0.8
India	0.9
China	2.3

**Notes:** 1. 2000 wage levels are used for Singapore, South Korea, Hong Kong and China; 1999 figures for the Philippines, Indonesia and Thailand; 1997 figures for India and Malaysia.  
 2. Monthly wages are used for comparison for all countries except Indonesia, where the weekly salary is used.  
 3. The wages are in comparison to the yen; the exchange rate is the average for each year.

**Sources:** ILO, *Yearbook of Labour Statistics*; Cabinet Office, *Overseas Economic Data*; Ministry of Health, Labour and Welfare, *Monthly Labour Survey*.

**5. Business Restructuring and Labor Shedding**

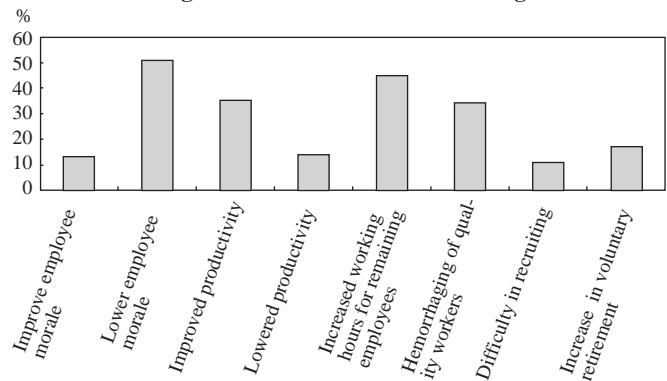
An increasing number of firms nowadays carry out direct labor shedding through, for example, voluntary retirement schemes and dismissals. Such reductions in the labor force are largely affected by the overall business situation, and are not necessarily due to any significant change in the employment strategy of the firms concerned.

Some 70 percent of the firms involved in voluntary and early retirement schemes with special benefits require cer-

tain criteria and impose age limits. Of these firms, more than 60 percent set the minimum age at 45 to 54. Also, most firms pay an extra retirement allowance to workers who accept the offer.

A majority of firms have cited negative effects of labor shedding, such as a lower morale among employees, an increase in working hours for the remaining workers, and a hemorrhaging of quality workers. At the same time, however, such measures improved worker productivity in many firms, the positive effect overtaking the negative one in this case. What is more, an analysis indicates a possible correlation between the impact of labor cuts and the carrying out or otherwise of direct labor shedding.

**Figure 6. Effects of Labor Shedding**



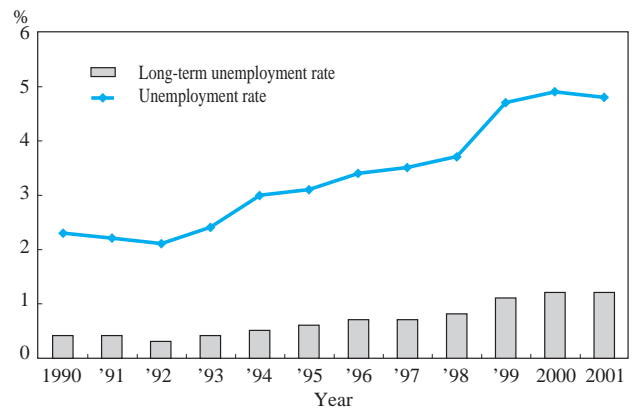
**Note:** Figures represent percentage of those firms that responded yes to either "have implemented labor shedding policies," "in the process of implementing labor shedding policies" or "plan to implement labor shedding policies in the future."

**Source:** Japan Institute of Labour, *Survey concerning Business Restructuring and Employment (Enterprise Survey)*, 2002.

**6. Number of Those Unemployment for Long Term Grows Fourfold in 10 Years**

Special features of unemployment in recent years include an increase in the number of people unemployed for longer periods. The number of long-term unemployed

**Figure 7. Trends in the Unemployment Rate and Long-term Unemployment Rate**



**Note:** Long term employment = number of people who are unemployed for more than a year ÷ labor force population.

increased by some 700,000 in the last 10 years, a fourfold increase in terms of number and three times in terms of growth rate. Half of these workers are either youth or older men; the number of youth who have been without a job for a long period has grown some fivefold since the early 1990s.

A majority of workers who have been unemployed for a long period do not have their own income but rely financially on family members with incomes, placing a great strain on household finances. Even those with other family members with incomes are obliged to reduce their savings, which puts pressure on them in the long run.

While a prolonged duration of unemployment is conditioned by the sluggish economy, the urgency with which one searches for work is also a factor. The longer a worker is unemployed, the more difficult it becomes to find work, since protracted unemployment lowers the confidence and ability of the workers concerned. Thus it is crucial to assist them to find employment as soon as possible.

### 7. Excessive Employment and Latent Unemployment

The gloomy state of the job market has aspects which cannot be understood solely in terms of unemployment. In this regard, reference is often made to excessive employment and latent unemployment. With the economic situation fluctuating, qualitative and quantitative gaps develop between the number of workers actually required by firms and those who are currently employed, leading to "excessive employment." Investigation of such employment is useful in understanding the employment situation.

At the same time, it is difficult to get a clear picture of excessive employment; the estimated number of people who fit in this category varies considerably depending on the method used. What is more, having "excessive" workers does not necessarily imply the need for employment adjustment, since it is only reasonable in an economic sense for firms to hold on to excessive workers for a period of time.

It has also been argued that to understand the actual state of unemployment it is important to consider latent unemployment because this covers those who wish to work but have given up looking as no appropriate job is available. It is said that by international standards latent unemployment exists on a large scale in Japan, but it should be noted that this is not necessarily a serious problem as quite a few people in this category are ready to take a job as long as they do not need to sacrifice their family life.

### 8. Job Creation and Loss: Older Workers Set Up New Businesses

The industrial structure in Japan first shifted weight from agriculture and other primary industries to secondary industries such as manufacturing, and is now shifting towards tertiary industry, that is the service sector.

Under such circumstances, the number of job openings in tertiary industry due to new business start-ups exceeds the number of job losses due to business closures, whereas in the manufacturing and construction industries the reverse is the case. The rate of start-ups and closures in Japan is low by international standards.

Possible factors hindering new start-ups would seem to include difficulty in financing businesses and a lack of

human resources and know-how. Recently, the age of people starting new businesses has been rising, mostly probably because it is middle-aged and older workers who are being laid off.

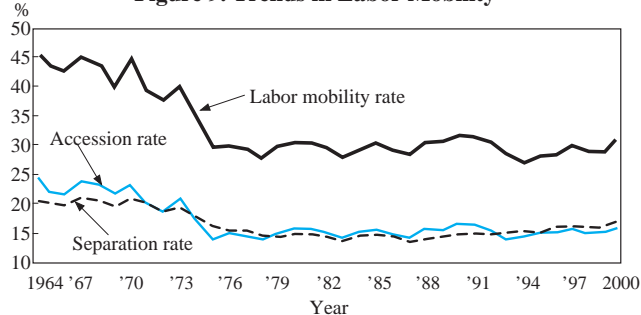
Despite everything, the rate of job creation has been falling in recent years in the service sector, and in order to reverse the trend, particularly in businesses targeting individual consumers, it will be necessary to stimulate personal consumption. Also, with the current gloomy state of the labor market, work sharing has been attracting widespread attention in the interest of maintaining and creating jobs.

Figure 8. Average Age when Starting a New Business



Source: National Life Finance Corporation, *Survey on New Business Start-ups*.

Figure 9. Trends in Labor Mobility



Notes: 1. Accession rate = the number of new hires ÷ the number of people already employed in the enterprise. (As of January 1 of the year the survey was conducted.)  
 Separation rate = the number of people leaving the company ÷ the number of people employed in the company. (As of January 1 of the year the survey was conducted.)  
 Labor mobility rate = the accession rate + the separation rate.  
 2. Construction firms have been included in the figures since 1991.

Sources: Ministry of Health, Labour and Welfare, *Survey on Employment Trends*.

### 9. Labor Mobility and Job Switching

Labor mobility in Japan was fairly high during the 1960s and the first half of the 1970s, but as economic growth declined after the first oil crisis in 1973, it began to fall. During the so-called bubble years, mobility increased slightly, but decreased when the economy began its downward slide. Reaching a low in 1994, it has tended to increase since then.

The desire to switch jobs is becoming stronger among

the younger generation in the long term, but whether they actually do so depends considerably on economic conditions, and is influenced by the diversification of job contract patterns and the increasing predominance of the service sector.

Where the redistribution of labor across different industries is concerned, newly-graduated students play a large role. Those already employed who wish to change jobs tend

to move within the same industry, and contribute little to redistribution. Labor mobility across regions is tending to fall.

The success rate in job switching is high among those who possess and make use of specialized knowledge and skills, but middle-aged and older workers are at a disadvantage.

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## A View of the 2002 *White Paper on the Labour Economy*

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This year's *White Paper on the Labour Economy* focuses on the currently gloomy employment and unemployment situation; in this sense, the paper might better be entitled "White Paper on Unemployment." The paper's analysis is of high quality and successfully pinpoints unemployment problems in Japan. Below are the points that particularly drew my attention.

First, the paper breaks new ground in clearly showing the relationship between the "employment rate" — the percent of workers to the overall population — and the unemployment rate. The employment rate is an important index showing the degree of efficient use of labor resources, and the highlighting of this index is of great significance.

Secondly, I believe that the paper's approach towards arguments concerning the recent increase in the number of young people quitting jobs and unemployment among youth is very much to the point in that it associates the issues with a reluctance to land a job during an economic recession rather than with changes in the attitude of young people toward work. My view is that it is the deterioration of jobs for such people, in terms of both quality and quantity, that is worsening the unemployment problem; and the approach of the *White Paper*, which seems to focus on such age groups, accords with this.

Third, it is constructive that one entire chapter (Chapter 6) is devoted to a meticulous analysis of the issue of long-term unemployment. Studies on unemployment in other countries show that an increase in long-term unemployment prevents the labor market from fulfilling its function in labor matching, and is likely to raise the level of unemployment. I am not sure that the paper's analysis of long-term unemployment is adequate, but

considering the possibility that the prevention of this type of unemployment may be the key to dealing with unemployment as a whole in Japan, too, it deserves praise for making a start on such an analysis.

Generally speaking, measures to reduce the unemployment rate are classifiable under two approaches: curbing the flow of workers into unemployment; and encouraging the outflow of workers from unemployment. I have the impression that employment policies have so far tended to value the former more highly. However, with the rapid changes in industrial structure in recent years, this approach is reaching the limit of its effectiveness, and from now on policies encouraging outflow will become increasingly necessary. The analysis of long-term unemployment developed in the *White Paper* may well provide a clue in such a direction.

Thus, I highly value this year's *White Paper* for its excellent analysis of the current situation. One request, though: I wonder if there should be more analysis from the point of view of those looking for workers. Assuming that the external labor market means a place where job seekers, including unemployed people, and firms looking for workers meet each other, I feel that the *White Paper* does not devote enough attention to the investigation of such firms, compared to its analysis of unemployed people.

Of course, I am well aware that the data available is limited, which is not the responsibility of the *White Paper*. But since the analysis of labor demand is of obvious importance, I wish that data could be adequately developed to analyze the number of job vacancies and fluctuations. This would surely make it possible to understand more accurately the nature of mismatching.

# JIL NEWS AND INFORMATION

## Survey on HRM in Japanese-affiliated Enterprises Abroad (Part 1)

### 1. Survey Aims and Method

Globalizing Japanese companies are expanding their activities in all regions of the world. They employ some three to four million workers and dispatch around 400,000 Japanese workers to work in their overseas offices, 100,000 of whom are long-term. These enterprises are searching for the most appropriate personnel management strategies in order to use human resources effectively and raise performance levels while minimizing friction and adapting to various local conditions. This survey, conducted in September 2001, is a continuation of the first survey in 1999 and aims to contribute to the smooth operations of the Japanese companies that are investing abroad and globalizing by exploring how they deal with issues such as human resource (HR) management and HR development, and labor-management relations. There were 967 valid responses (a valid response rate of 38.3%) from 50 countries and two regions. Particular features of the survey results are given below; the remainder will appear in the October issue.

### 2. Recruitment, Personnel System and HR Development

#### (1) Some 30 percent of firms have difficulty employing talented locals

While approximately 30 percent of companies responded they were rather successful in employing first-class local people, 6.1 percent answered this was “not the case at all,” and 21.9 percent that this was “not really the case.”

#### (2) Majority of firms adopt local personnel systems for white-collar workers

With regard to white-collar personnel systems, 20.3 percent of the companies that replied said they had “full-scale integration” with personnel systems of local companies, and 36.2 percent replied they were “somewhat integrated.” On the other hand, a majority were “not integrated at all” or “hardly integrated” with the personnel system of the Japanese head office and other companies in the same group. More companies adopted local personnel systems than inte-

Figure 1. Able to Employ First-class People Locally

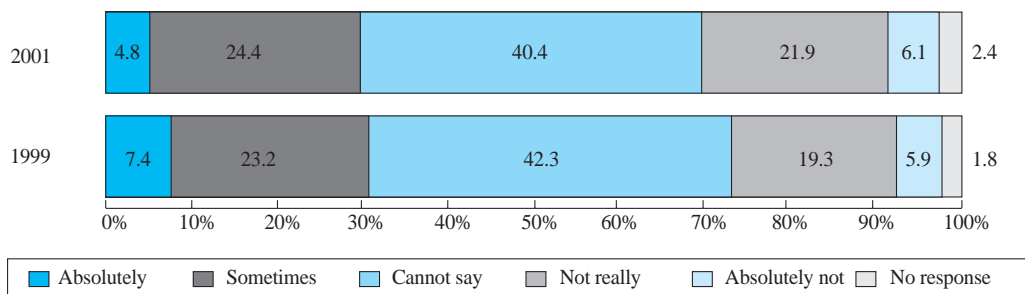
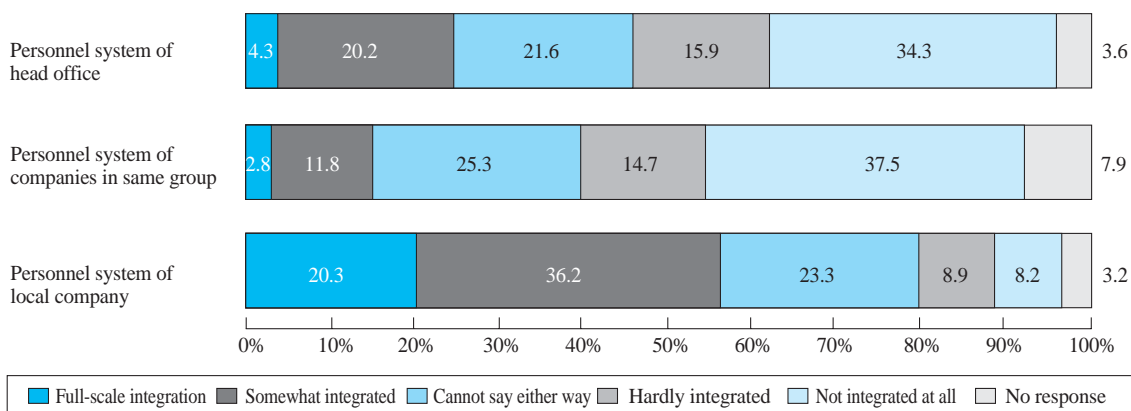


Figure 2. Integration of Personnel Systems for White-Collar Workers (evaluation, promotion etc.)



grating the personnel systems of the head office or affiliated companies.

**(3) Human resource development methods for local employees**

Regarding methods of human resource development, 42.7 percent of the firms replied that they sent their locally-employed university graduates and post-graduates to the head office in Japan for short-term training, 42.3 percent replied they used in-house training, 40.6 percent replied that such employees were sent outside the company for training, and 37.3 percent assisted in self development (multiple answers possible).

**(4) Work duty more important than age and years of service when determining wages**

Just over half of the companies surveyed responded they agreed that nurturing subordinates is an important responsibility of management (50.3), while 36 percent said that they agreed somewhat. In terms of conducting personnel performance evaluation for all employees, including those at on-site operations, 58.6 percent agreed and 21.5 percent somewhat agreed. More than one-quarter (25.6%) agreed that they attach importance to work duties when determining wages,

while 53.9 responded that they somewhat agreed. On the other hand, a high proportion of companies also responded that they do not agree or cannot really agree with the statements; “attach more importance to employing new graduates than experienced workers,” “differences in ability and performance are not reflected in employment packages over the short-term,” and “attach importance to age and years of service when determining wages.”

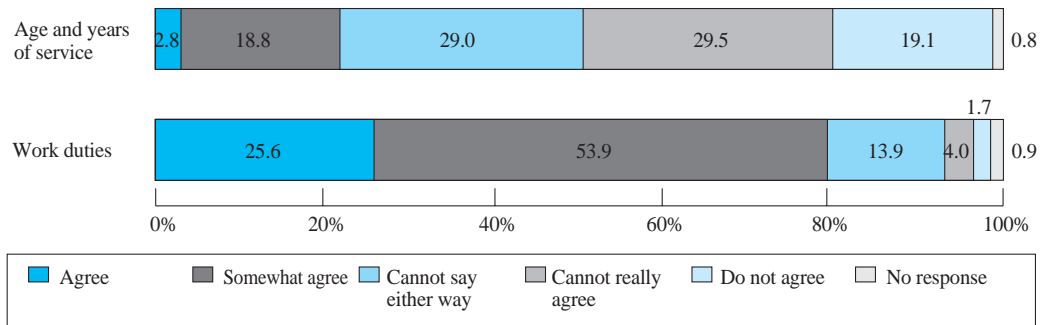
**(5) Attach importance to wages and remunerations, and bonuses and individual incentives to motivate local employees**

Methods regarded as important for raising the motivation of both management and non-management local staff were: wages and remunerations (management 70.8%, non-management 81.4%), bonuses and individual incentives (management 45.3%, non-management 56.4%), promotion and advancement (management 42.3%, non-management 44.2%). (Firms could select up to three answers.)

Also, in a relative comparison of non-management and management personnel, transfer of authority, greater degree of discretion over work, and participation in management decision-making applied more to people in management positions than in non-management posts.

*(To be continued in the next issue)*

**Figure 3. Important Factors when Determining Wages**



**OPINIONS REQUESTED**

The editor invites readers to send their views and comments on the contents of *JLB* via e-mail to [akuwa@jil.go.jp](mailto:akuwa@jil.go.jp) or via fax to +81-3-5991-5710.

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