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WORKING CONDITIONS & THE LABOR MARKET

2002 Unemployment Rate Hits Record High 5.4 Percent: Labor Force Surveys

The average number of unemployed in 2002 totalled 3.59 million, the 11th consecutive yearly increase, according to a compilation of the monthly *Labour Force Survey* for 2002 released by the Ministry of Public Management, Home Affairs, Posts and Telecommunications in January. The unemployment rate averaged 5.4 percent, the highest since the survey began in 1953.

The average number of workers last year was 63.30 million, a drop of 820,000 from the previous year — the fifth consecutive and the largest annual decrease since 1998.

The number of self-employed and family workers declined by 430,000 from the previous year to 9.75 million, and the number of company employees declined by 380,000 to 53.31 million. By industry, 28.5 percent of all workers were employed in

the service sector, followed by wholesale and retail, and eating and drinking establishments at 22.7 percent (14.38 million); manufacturing at 19.3 percent (12.22 million); and construction at 9.8 percent (6.18 million). Throughout the 1990s the service sector expanded while the manufacturing sector experienced contraction. This trend has continued into the early 2000s. The relative proportion of workers employed in the wholesale and retail, and eating and drinking establishments remained more or less the same as the previous year, but the actual number declined by a substantial 350,000.

Among the 52.92 million non-agricultural and non-civil servant employees, the number of regular employees declined by 730,000 to 45.76 million, whereas that of temporary employees increased by 370,000 to 6.01 million. Consequently, the proportion of regular employees to employees as a whole saw the eighth consecutive decline since 1995. The number of employees working at firms with between one and 29 employees increased by 60,000 to 17.35 million, and those with 30 to 499 employees by 90,000 to 17.93 million. On the other hand,

the number of employees in large firms with 500 or more employees declined substantially, by 640,000 to 11.84 million, reflecting widespread closures, downsizing and enforcement of early retirement measures.

The number of unemployed increased by 190,000 from the previous year to 3.59 million, with the 2002 annual average unemployment rate showing an increase of 0.4 percentage point to 5.4 percent. The figure was the highest since 1953 when comparable data was first available. The unemployment rate was 5.5 percent (2.19 million) for males, and 5.1 percent (1.4 million) for females, the former having exceeded the latter for five successive years since 1998.

Heads of households accounted for 3.7 percent (990,000) of the unemployed, spouses for 3.3 percent (470,000), other family members for 8.8 percent (1.59 million), and single householders for 6.8 percent (530,000). This was the fourth consecutive year that the jobless rate among household heads, usually the main income earner in a family, had exceeded three percent.

More people were forced out of their job than quit; with 1.51 million responding they were either

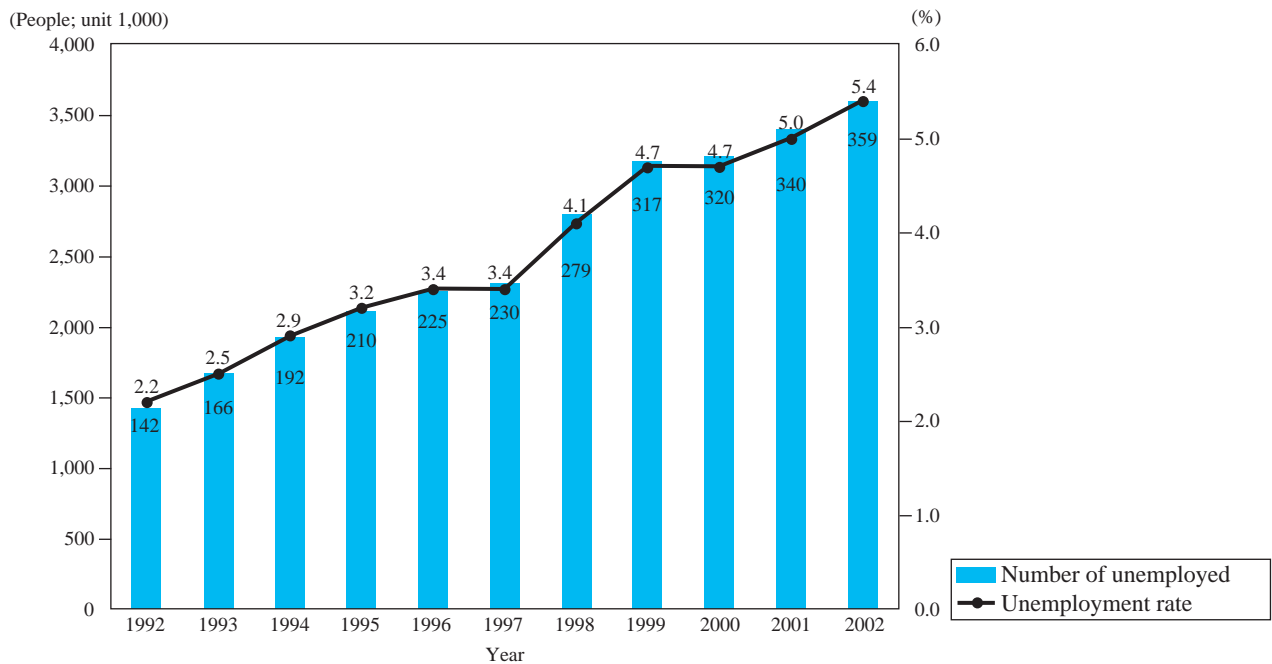
dismissed, had to leave their job because they had reached the mandatory retirement age, or for other “involuntary” reasons. (Of these cases, 360,000 involved retirement or termination of fixed-term contracts, while 1.15 million responded they were unemployed at the instigation of their employer or firm.) On the other hand, the number of unemployed who quit their previous jobs voluntarily totalled 1.15 million. Incidentally, since the January 2002 survey, questions as to why one is unemployed have become more detailed, and therefore it is impossible to compare the responses this time with previous surveys. Even so, the 2002 survey results show that people who left their jobs involuntarily due to bankruptcies or early retirement schemes enforced by their employers accounted for nearly one-third of all jobless people.

Worker-dispatching Industry Expands

According to a report published by the Ministry of Health, Labour and Welfare on December 26, 2002, the number of dispatched (agency) workers and the sales at worker-dispatching companies in fiscal 2001 grew by some 15 percent compared to

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Figure 1. Trends in the Number of Unemployed and the Unemployment Rate



Source: Ministry of Health, Labour and Welfare, *Labour Force Survey*.

the previous fiscal year.

There are two types of dispatching businesses. One covers general workers who are registered with the firm, and once they find a host company wanting a dispatched worker the firm signs a fixed-term contract with the worker. The other type dispatches their own regular, permanent employees, thus their labor contract continues even when they are not being hired out to host companies. (Dispatching agencies dealing with both types of dispatched workers are classified with the first type.)

According to the report, regular, permanent employees who were dispatched to client companies (specialized-type) totalled some 300,000 (up 9% over the previous fiscal year), and registration-type dispatched workers⁽¹⁾ numbered some 1.45 million (an increase of 30%). The total number thus grew by 26 percent from the previous fiscal year to some 1.75 million. If the number of registration-type dispatched workers is calculated in terms of regular employees (for example, a registered worker who has been dispatched and worked at a host company for six months in the previous year is counted as 0.5), the number of such workers is 310,000 (up 19%), increasing the number of dispatched workers

as a whole to some 610,000 (an increase of 14%).

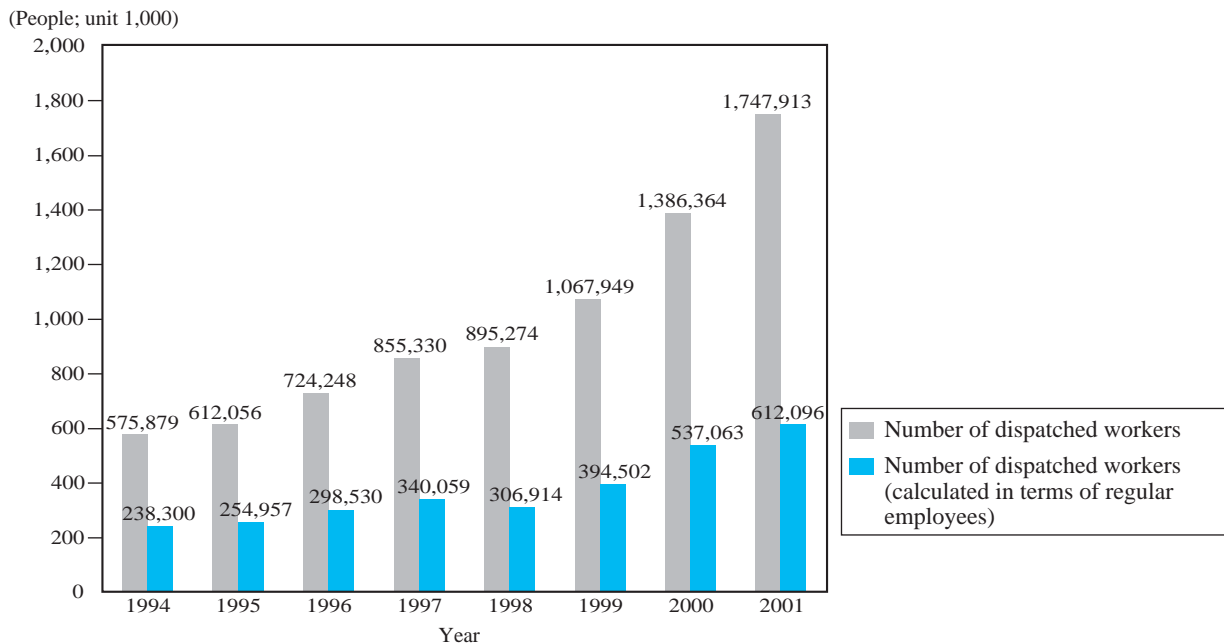
By job type, 45 percent of registration-type dispatched workers were engaged in operating office equipment, followed by financial management (12%) and filing (8%). As for regular employees dispatched by specific worker-dispatching firms, software development (33%) and hardware development (30%) accounted for more than 60 percent. These figures show that the two types of dispatching companies receive different job requests.

There were 3,831 agencies that dealt with general dispatching and they reaped ¥1.56 trillion in sales, an increase of 21 percent over the previous year. There were 3,768 firms which dispatched specialized workers, but their sales figures only totalled ¥385.6 billion, a decrease of 0.4 percent. Thus the scale of general worker-dispatching firms is now four times that of specialized worker-dispatching firms, and the growth rate of the former in the past few years substantially exceeded that of the latter. While nearly half of all general worker-dispatching firms achieved sales of ¥100 million or more, as many as 65 percent of specialized worker-dispatching firms had sales of less than ¥50 million.

The commission⁽²⁾ for high-demand jobs was

Statistical Aspect

Figure 2. Trends in the Number of Dispatched Workers



Source: Ministry of Health, Labour and Welfare, *Report on Worker Dispatching Business*, 2001.

¥14,573 for operators of office equipment, ¥14,938 for workers engaged in financial management, and ¥14,323 for those who filed documents (based on eight hours). As for specialized worker-dispatching fees, software developers and machine (hardware) developers brought in fees of ¥29,102 and ¥24,676, respectively.

Behind the expansion of worker-dispatching businesses lies, first of all, the fact that firms nowadays try to avoid increasing fixed costs, rather than simply reducing labor costs. However, their growth is also fuelled by development of firms in marketing, information networking and quick service, as shown by the high demand for workers who can be dispatched within hours.

Notes:

- ⁽¹⁾ The number of registered dispatched workers does not include those who have not been dispatched for one year.
⁽²⁾ Commission: Payments by the host company to the dispatching company.

Unpaid Overtime Laid Bare at One-fifth of Establishments

Long working hours and unpaid overtime at firms which have cut their labor force are attracting attention in Japan. The February 2003 issue of the *Japan Labor Bulletin* included a Rengo (Japanese Trade Union Confederation) report on unpaid overtime and the situation of and outlook for union members.

According to the report, it was found that employees worked unpaid overtime in approximately 20 percent of some 3,000 business establishments across the country. The report was based on inspections conducted in November 2002 by the Ministry

of Health, Labour and Welfare at 3,030 establishments that previously were under scrutiny due to violations of the Labour Standards Law or whose employees worked extremely long hours. This was the first thorough investigation into the question of unpaid overtime.

The inspection revealed that 18.6 percent (564 businesses) of the firms surveyed paid overtime allowance for fewer hours than were actually worked, some in fact paid none at all. (In one case, for example, an employee who had worked 50 hours of overtime was paid for only 20 hours.) At 14.3 percent of the firms surveyed (434), the overtime premium was lower than the legally set rate (25% or more above the normal hourly rate). At one company, employees were paid overtime for all the overtime they worked, but at a rate of only 20 percent of their hourly pay. Consequently, nearly one-third of the businesses inspected (32.9%) were in violation of the Labour Standards Law, and were given guidance by the ministry in correcting this state of affairs.

The Labour Standards Law stipulates that firms in principle must not make their employees work for more than eight hours per day, or 40 hours per week. However, Article 36 of the law permits overtime exceeding the legally determined working hours, and working on legally defined holidays if representatives of more than half of the employees and the employers agree on overtime and holiday work, and if they report the agreement to the Labour Standards Inspection Office. Even so, the ceiling for non-scheduled working hours is set at 45 hours per month or 360 hours per year in the guideline.

Twenty-one percent of the firms investigated had labor unions, and 76 percent did not (figures

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Table 1. Ratio of Contract Term of Dispatched Workers

(Unit: %)

	Less than 3 months	More than 3 months but less than 6 months	More than 6 months but less than 9 months	More than 9 months but less than 12 months	Others
Registration-type dispatched workers	71.8	18.7	5.4	2.2	1.9
Specialized-type dispatched workers	35.9	15.5	12.5	19.1	17.0
Total	70.4	18.6	5.7	2.9	2.5

Source: Ministry of Health, Labour and Welfare, *Report on Worker Dispatching Business*, 2001.

unknown for the remaining 3%). The proportion of firms which had violated the Labour Standards Law among those without unions was twice that of those with unions (34.6% compared with 16.8%).

Recently, several firms have been sued or individual offenders arrested for refusing to pay overtime. This has resulted in an increasing number of companies trying to do away with unpaid overtime altogether, and the government intends to clamp down on offenders more severely.

PUBLIC POLICY

Government Promotes Start-ups to Create New Jobs

Governmental policies dealing with unemployment have so far focused on granting subsidies to already existing firms to encourage them to hire unemployed workers. However, new measures have been launched which aim to create new jobs by promoting new business start-ups. The new subsidy measures can be classified into three categories, according to their purpose: (1) subsidies to reduce the overall number of unemployed people; (2) subsidies to improve the employment situation in a particular area or region; and (3) emergency subsidies to prevent an increase in unemployment resulting from the disposal of bad loans.

The first type of subsidy was put in place in February 2003 and targets those who qualify for

unemployment insurance payments and who start their own business. This person will be granted one-third of the start-up costs, up to ¥2 million. Incidentally, another subsidy launched at the end of 2002 grants a new business started by three or more people 45 years old or older two-thirds of the start-up cost, up to ¥5 million. Both subsidies are financed by the national unemployment insurance scheme.

The second type of subsidy is designed to create jobs in local communities, particularly in newly created corporate bodies (including non-profit organizations) in 10 sectors including child and elderly care, and medical services which the government has designated as "sectors contributing to local communities." The subsidy — granted to employers who hire three or more workers 45 to 59 year old as regular employees — covers one-third of the start-up costs (up to ¥5 million), and ¥300,000 per worker 30 years old and older (up to 100 employees).

The third type is part of a series of measures for firms that hire workers who had to give up their jobs due to restructuring measures and which encourage business start-ups. As more firms dispose of their accumulated bad loans, more than 100,000 people are expected to be laid off. These measures are intended to smooth the transition from job to job. This new scheme is directed at workers who are out of work due to restructuring measures and who plan to set up their own business, and to new entrepreneurs who hire workers who have lost their jobs due

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Recent Labor Economy Indices

	January 2003	February 2003	Change from previous year (February)
Labor force	6,560 (10 thousand)	6,542 (10 thousand)	-62 (10 thousand)
Employed ⁽¹⁾	6,203	6,193	-55
Employees ⁽¹⁾	5,289	5,262	-10
Unemployed ⁽¹⁾	357	349	-7
Unemployment rate ⁽¹⁾	5.5%	5.2%	-0.1
Active opening rate ⁽¹⁾	0.60	0.61	0.1
Total hours worked ⁽²⁾	140.0 (hours)	150.9 (hours)*	-0.1 (%)
Monthly cash earnings ⁽²⁾	294.0 (¥ thousand)	281.2 (¥ thousand)*	0.1 (%)

Notes: ⁽¹⁾ Seasonally-adjusted figures.

⁽²⁾ Figures refer to establishments employing five or more people.

*Preliminary figures.

US\$1= ¥118 (April 1, 2003)

Source: Ministry of Public Management, Home Affairs, Posts and Telecommunications, *Rodoryoku Chosa* (Labour Force Survey); Ministry of Health, Labour and Welfare, *Shokugyo Antei Gyomu Tokei* (Report on Employment Service), *Maitsuki Kinro Tokei* (Monthly Labour Survey).

to restructuring, or to middle-aged and older workers who quit their jobs involuntarily. In the former case, a subsidy of ¥600,000 is granted to each new entrepreneur (a maximum of three if a new business is started by more than one person), whereas ¥300,000 or ¥600,000 is granted for each person hired who lost their job due to restructuring.

There continue to be few new job openings, and the government hopes that new business start-ups will partially solve this problem, particularly for middle-aged and older workers who have been unemployed for a long time, and also improve the unemployment situation in particular regions. However, in other advanced industrial countries, business start-ups by unemployed people have not resulted in success, and there are not many business start-ups in Japan. Under these circumstances, it will be hard for these new subsidy schemes to bear fruit.

PESOs Strengthen Their Labor-matching Role

Some 600 Public Employment Security Offices (PESOs) across the country provide job information, grant unemployment insurance to unemployed workers and various subsidies to employers, and provide information on job education and training. In particular, with the employment situation looking progressively gloomy, the offices are now strengthening their role in providing job information to resolve the structural and frictional mismatching between labor supply and demand that is pushing up the unemployment rate. A deregulation measure in 1999 enabled private agencies in principle to freely participate in the job introduction business. The participation of private agencies has pushed their public counterparts to improve their efficiency and the quality of their services.

In 1999, some PESOs in Tokyo began listing job information on the Internet; this service was expanded to other major cities, and now job information from PESOs across the country is available on the Internet. Some 100,000 people access this website daily. Until recently, however, job seekers still had to visit PESOs for counselling and further information on the jobs they were interested in because the names of the companies offering jobs were withheld. On January 14, 2003, in a move to streamline the operation, the Ministry of Health, Labour and Welfare began publishing the names and telephone numbers of companies with some 70,000

job openings which had agreed to the measure. This figure represents about 20 percent of the total of those registered at PESOs across the country (some 380,000). The ministry has another website called "Shigoto (Job) Information Net," a search function for job advertisements registered with PESOs and private job introduction agencies, accessible via mobile phone as well as on the Internet. (See the June 2002 issue of the *Japan Labor Bulletin*.)

It is possible to consult with job introduction counselors at PESOs, but the deterioration of the labor market and the resultant increase in unemployment have made it difficult to take care of individual job seekers adequately. Therefore, in 2001, the ministry hired 94 new advisors from the private sector to help workers in their job searching activities. (Currently, there are 212 such advisors.) This year, the ministry decided to station 500 full-time "job searching navigators" to help workers who had lost their job due to company measures to deal with bad loans, and 1,000 "promoters" to help individual job seekers find suitable advertisements. Each job searching navigator simultaneously helps 20 or so jobless workers, encouraging them to take another job within a short period of time — say, two to three months — with the cooperation of the "promoters." These job searching navigators are mainly people who have practical experience in personnel management at private companies; people who have experience in personnel introductions or worker-dispatching agencies; or are so-called industrial counselors.

In its 2001 employment policies, the ministry launched a plan to create 50,000 career development advisors* within five years in the public and private sectors. In addition, it was decided to entrust to the private sector services that help middle-aged and older workers who were obliged to give up their jobs as part of their companies' handling of bad loans. As seen above, the importance of re-employment counselling for middle-aged and older workers has been attracting attention, and the public and private sectors are beginning to collaborate more closely on this problem.

Note:

*Career development advisor: A specialist who assists his clients in finding jobs that will satisfy them. The advisor together with his/her client establishes a target, and the advisor helps them improve their vocational skills. The duties of an advisor are not exactly the same as a counselor or therapist, and an official certification system for advisors was established in 2000. Currently, there are about 1,200 qualified career development advisors.

Use of On-site Contract Workers in the Manufacturing Sector and Revision of the Worker-dispatching Law

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1. Changes in How Personnel Are Used, and Contract Workers

Corporate policies concerning the use of human resources hit a drastic turning point in the 1990s. To cope with increasing uncertainty in the product market (i.e., reduced ability to forecast the future) and intense cost competition, firms have been actively introducing policies which allow them to handle fluctuations in the demand for labor services, to turn labor cost into a variable, and to reduce the labor cost themselves. More specifically, firms are beginning to decrease the number of regular employees, traditionally the recipient of long-term human resource investment, and place more weight on the use of non-regular employees with fixed-term contracts and part-time workers with shorter working hours who can be hired when needed (for a particular time of year or day), as well as workers outside the company (such as dispatched workers and on-site contract workers) who require neither human resource investment nor hiring expenses, but can be taken on only when necessary. These changes in personnel policy led to a reduction in the number of regular employees and an increase in the number of non-regular employees, dispatched workers and other outside workers.

Neither dispatched workers nor contract workers work at the firms where they are actually employed; the former work at the host company, and the latter at the client company to which they are under a contract work arrangement. They are identical in the sense that their workplaces are not in the firms that hire them. The two types of workers are, however, considerably different if considered from the viewpoint of the firms which use them. Firms using dispatched workers are allowed to give instructions and orders to the workers, whereas those using contract workers are, as described later, legally prohibited from doing so. Firms making use of a contracting company (employment company) entrust employees of the latter to engage in duties at their workplaces, and these workers are under the managerial control of their own employer, i.e., the contracting firm.

Until the Worker Dispatching Law came into effect,

the Employment Security Law prohibited the labor supply business, whereby companies supply other companies with their own personnel. In 1986, when the Worker Dispatching Law was enforced, the act of placing a firm's own employees with third parties was approved as a business for the first time. However, the law confined itself to designating 26 categories (the so-called "positive list" system), and banned dispatching workers to production sites. A revision of the law in 1999 in principle lifted the restriction on dispatchable types of work, specifying instead the types of occupations for which worker dispatching was prohibited (the "negative list" system). The revision expanded the range of work allowed to be done by dispatched workers, but here again duties involved in production were not allowed.

This is the main reason why firms have made use of workers from contracting companies when they need outside labor for production work. They have relied on such contract workers via contract work agreements whereby the latter engages in duties at their workplaces. The difference between outsourcing and on-site contract workers within the workplace lies in the fact that the former engage in duties at the workplace of the supplier, whereas the latter carry out their duties not within the contracting company, but at workplaces of the client company.

The 1990s, thus, saw an increase in the number of firms making use of contract workers at their production sites. In practice, though, in addition to the contracting company giving instructions and orders to their employees and carrying out services under their own managerial control, a considerable number of firms instructed contract workers in their jobs. In line with this, consideration is now being given to approving dispatching in the field of production operations, so that firms will be able to take advantage of both dispatched workers and contract workers at production sites, a plan that is expected to be incorporated into the revised Worker Dispatching Law to be enacted this fiscal year.

This article will examine how contracting companies are used, using the results of a survey targeting

production departments using on-site contract workers at their sites⁽¹⁾ (hereinafter, this survey is referred to as the user survey). The results of a survey aimed at contracting companies is also provided as supplementary data⁽²⁾. The article concludes with a discussion of changes that may occur when the prohibition on dispatching workers for production services is lifted.

2. Contract Workers in Production Operations

2.1 Special Features of Production Departments and Why They Use Contract Workers

The production departments surveyed produce parts for electric and electronic equipment (31.4%), electronic end products (17.1%), automobile parts (16.2%), and other goods. The line-up of these products corresponds to the major categories of businesses using contracting companies in their workplaces⁽³⁾. The production of these goods fluctuates considerably (if the average is set at 100, production ranges from a low 72.5 to a high 134.3), and it is difficult to forecast production volume and orders: 29.5 percent of the firms surveyed claimed that they could foresee one month ahead, 31.4 percent reported they could predict demand several months in advance. Firms answering from one week to several weeks ahead accounted for 23.8%. In addition, these products are exposed to stiff price competition (50.5% of the firms surveyed cited

very severe price competition with rival companies), and the life cycle of most of these products had already reached the “mature” phase (65.7%), or the “decline” phase (12.4%). Only 14.3% replied that their products are in periods of growth.

From the above information it is clear that the business sectors which the surveyed firms belong to have difficulty securing personnel on the basis of a long-term employment relationship, and they have a great need to secure a workforce that can be easily adjusted to changes in product demand while simultaneously being inexpensive enough to bear the pressure of price competition. This is also demonstrated by the survey results: the main reasons for utilizing contracting companies were related to “securing staff apart from regular employees,” “reduction in labor costs,” and other means of cost reduction; and “coping with the ups and downs of the workload.” (Three answers possible, see Table 1.) On the other hand, only a small proportion of the firms surveyed relied on contracting companies to relieve the burden on personnel management or because workers with particular skills were not available in their own companies. In line with this, contract fees (62.9%) and prompt supply of workers on sudden request (46.2%) were the main criteria when selecting contracting companies (three answers possible). Incidentally, companies were more interested in long-term contract workers than their skill level (48.6% as opposed to 20%). This is an indication that contract workers do not necessarily need to be highly skilled, and that the mobility of contract workers is so high that firms find it difficult to secure a steady, high-quality supply.

A majority of the production departments surveyed began using contract workers after 1990 (79%)⁽⁴⁾, and a large number of firms have contracts with more than one contracting company, the average figure being 3.9. Most of these relationships are long-term. The average number of contracting companies with which the firms had continuous dealings was 3.6. It appears that firms deal with more than one contracting company to be able to cope swiftly with changes in the workload. Since the amount of work entrusted to contracting companies changes, the number of contract workers actually taken on also changes. However, firms rarely stop using a particular contracting company, and seem to continue contractual relationships even when their workload has decreased. For this reason, most of the firms surveyed, 85.7 percent, answered that they use contracting companies throughout the year, rather than at specific times when the workload increases.

2.2 Composition of Production Department Personnel

In the production departments that were surveyed

Table 1. Main Reasons for Using Contract Workers (up to three choices possible)

	(%)
To secure personnel without increasing the number of regular employees	78.1
To deal with temporary or seasonal fluctuations in the workload	70.5
To cut labor costs in the production department	53.3
To make up for temporary vacancies in regular staff	18.1
To reduce the burden of recruiting and hiring activities	13.3
To allow regular employees to concentrate on duties requiring advanced skills	12.4
To assign them duties which will be downsized or abolished	6.7
To supplement the immediately necessary workforce for new businesses	5.7
To reduce the burden involved in registration for social insurance and other paperwork	3.8
To access personnel with skills and knowledge which regular staff do not possess	2.9
To avoid extra expenditure on training of regular staff	1.9
To reduce the burden of supervising production processes and duties	1.9
Other reasons	1.0
No answer	1.0
N	

Table 2. Regular Employees in the Production Department and Their Involvement in the Managerial Control of Contract Workers

	Regular employees of host company responsible for managerial control of individual contract workers	Regular employees of host company give directions to contracting firms or team leaders of contract workers	Responsibility left to contracting companies or team leaders of contract workers	No Answer	Total (N = 105)
Allocation of duties to contract workers	55.2	21.0	19.0	4.8	100.0
Instructions and training concerning operating methods for contract workers	58.1	29.5	8.6	3.8	100.0
Security and health education for contract workers	38.1	21.9	33.3	6.7	100.0
Decisions on overtime and work shifts for contract workers	48.6	21.0	23.8	6.7	100.0
Evaluation of work abilities and ranking of contract workers	41.9	10.5	39.0	8.6	100.0

(92 departments answered all questions), the number of contract workers averaged some 60 percent that of regular employees (236 vs. 140 workers per department). On the other hand, the number of part-time and other non-regular workers, and dispatched workers was rather small, an average firm employing 26 non-regular employees and 10 dispatched workers. The small proportion of part-time workers and other non-regular employees in production departments is different than the pattern that can be seen in the retail and service sectors. In production departments, contract workers are in practice a significant part of the workforce, next to regular employees.

Compared to the situation three years before the survey, the number of regular employees and part-time workers and other non-regular employees remained more or less the same or decreased, whereas the number of contract workers demonstrated an upward trend. Looking at individual production departments more closely, however, it appears that about 15 percent had seen a reduction in the number of contract workers in the previous three years. It is expected that the number of regular employees will decrease further over the next three years, but that the number of contract workers will increase over the same period in more than half the production departments surveyed. What is certain is that the proportion of contract workers to regular employees will increase further.

2.3 Duties Assigned to Contract Workers, and the Concepts Underlying Their Use

The most common request to contractors, accounting for 69.5 percent of all orders placed, was to undertake some of the operations on a production line, followed by orders for an entire production line (31.4%). Future requests included "one production line as a whole" (27.6%) and "a number of production lines in

one lot" (28.6%). Thus, production departments hope to increase orders not for part of the operations, but for integral production lines⁽⁵⁾.

Practical duties carried out by contract workers include assembly (65.7%), checking and inspection (64.8%), packaging (61.9%), and transportation (49.5%) (multiple answers possible). In addition, some 10 to 20 percent of the production departments used contract workers for machine work, maintenance and checking, data input and data processing, heat treatment and surface treatment, monitoring and operation of equipment, and other jobs.

The skills which contract workers need are on the same level as that which new graduates can achieve within two weeks to three months. Contract workers are not expected to be highly skilled, and there is little difference in the skill levels required for different duties. One of the survey questions concerned how long it took for new contract workers to learn their duties. "Within the day" (1%) was somewhat exceptional, but most required "about a week" (20%), "two to three weeks" (23.8%), or "about a month" (33.3%), whereas a mere 21 percent took "about three months" or longer. Therefore, one can conclude that few production departments currently assign contract workers to duties requiring advanced skills.

When a firm directly gives instructions and orders to contract workers, it is not, officially, a contracting agreement. However, in practice, regular employees do provide such instructions and orders. (See Table 2.) In more than half the production departments surveyed, regular employees instructed and trained contract workers on operating methods (58.1%) or allocated duties (55.2%). What is more, in some 40 to 50 percent of the production sites surveyed, regular employees gave direct instructions and orders to contract workers concerning decisions on overtime and work

shifts, evaluation and ranking of work ability, and safety and health education. There were some production sites, admittedly, which left managerial control to the suppliers of contract workers (or team leaders of the contract workers), but such cases were not common⁽⁶⁾. A comparison between production sites which mainly commission workers for some of the operations on a production line and those which mainly commission orders for an entire production line shows that in the former case, the proportion of production departments which have direct managerial control of contract workers is high, whereas in the latter case, the proportion of departments with managerial control is low, the higher proportion of departments leaving the management of such workers to the supplier.

2.4 Problems and Future Tasks Involved in the Use of Contract Workers

Many duties assigned to contract workers do not require expertise, and can be handled with one week to one month of training. Nevertheless, when selecting contracting firms, production sites are most concerned with how long the contract workers will stay (48.6%). Most companies, 36.2 percent, preferred such workers to stay six months to less than one year, 21 percent answered one year to less than two years, and 23.8 percent expected their contracted workers to stay for three years or longer⁽⁷⁾. While slightly more than half the departments surveyed said that they were content with the length of stay of their contract workers, a considerable proportion, more than 30 percent, found the retention rate shorter than they wished. Even duties where advanced skills are not necessary requires work experience of about one month, and production departments, wishing to minimize training costs for new workers, naturally count on them to stay for at least six months, preferably longer. In fact, the survey results show that a substantial proportion of firms supplying contract labor could not satisfy such expectations.

The problems production departments face when using contract workers included an increase in the workload of regular employees due to the need to educate and train contract workers and managing contract workers, together with difficulty in accumulating and passing on technical know-how, and failure to transfer duties smoothly among contract workers. (Multiple answers possible, see Table 3.) If regular employees are heavily involved in the instruction and training of contract workers, and overseeing their work schedules and other managerial duties, the heavier the host department tends to find the burden shouldered by their regular employees. Departments which complain that the retention rate of contract workers does not meet their expectations also have a high proportion of complaints regarding the use of contract workers.

Again, such problems include an increase in the workload of regular employees in charge of education, training and management; difficulty in accumulating and passing on technical know-how; and inadequate transfer of duties among contract workers.

Some 30 percent of the production departments surveyed felt that the proportion of contract workers to workers as a whole should be increased to maintain and improve product quality and productivity, but the majority, about 40 percent, believed that the current proportion is desirable, and approximately 20 percent answered that the proportion should be lower. In particular, production sites whose retention rate is lower than hoped for do not see an increased ratio as a way to maintain or improve product quality and productivity. If anything, an increasing number wish to lower the proportion of contract workers. On the other hand, some 40 percent of the departments which wish to maintain or to lower the present ratio of contract workers predict that in practice the ratio will increase. In other words, increases in the number of contract workers are related not just to product quality and productivity, but also to cost performance and other factors. The implication here is that production sites may stress cost performance at the expense of quality and productivity.

Table 3. Problems Involved in the Use of Contract Workers (multiple answers possible)

	(%)
No particular problem	25.7
Increased burden on regular staff in charge of training contract workers	41.0
Difficulty in accumulating and passing on technical know-how	39.0
Increasing burden on regular staff who have managerial control of contract workers	24.8
Difficulty in smoothly transferring duties among contract workers	24.8
Lowering of product quality	17.1
Increasing risk that corporate secrets will be leaked	15.2
Less chance for regular staff to acquire skills and experience	14.3
Undermining close liaison and teamwork in workplaces	10.5
Deteriorating morale among regular staff	5.7
Longer working hours for regular staff	3.8
Usurping duties possibly usable in training of new regular staff	1.0
Other problems	1.0
No answer	1.0
N	105

3. Dispatching Workers to Production Sites, and Ways to Use Them

The plan to allow workers to be dispatched to production services imposes a one year maximum on the contract. Let us then examine the reaction of production departments in the host companies to the presence or absence of this one year ceiling.

If the maximum length of stay is confined to one year, the highest proportion, some 30 percent, of production departments want to use dispatched workers in duties currently done by contract workers. On the other hand, if there is no ceiling, 60 percent would like to use dispatched workers, irrespective of the duties which contract workers currently engage in.

The most common reason for using dispatched workers once the ban is lifted is that it will be more efficient in adjusting personnel for sections on the production line and for other purposes (60%, multiple choices possible). In addition, many production departments noted that it would be possible to directly give instructions and orders, and that it will help lower expenses.

If a one year limit is imposed on dispatched workers assigned to production departments, many companies were not interested in using their labor. Reasons included "that it will impose a responsibility on the host company" (53.1%), and "that it imposes a limit on the dispatching period" (21.9%) (multiple choices possible). On the other hand, if there was no limitation, reasons for not using dispatched workers included, in addition to "it will impose a responsibility on the host company" (18.2%), the denial of any pressing need in the first place, since "there is no problem at the moment" (54.5%), "an increase in costs" (45.5%), and "an increase in the burden for management" (36.4%).

Irrespective of a one-year limit, around 70 percent of the production departments surveyed are thinking of continuing to use contract workers as their main outside workforce, with supplementary use of dispatched workers once the ban has been lifted. On the other hand, only about 10 percent of the departments surveyed answered that, regardless of limit, they would replace all their contract workers with dispatched workers⁽⁸⁾.

Problems which are likely to occur when taking on dispatched workers include ensuring a swift and reliable response to changes in production level (43.8%), avoidance of an increase in the burden on personnel management (41.0%); improvement of the skills of dispatched workers (32.4%); maintenance of cooperation among various types of line workers (31.4%); sustention of productivity (24.8%); and conservation of the health and security of workers (21.9%) (multiple choices possible).

Notes:

- (1) The survey was carried out with the cooperation of 28 contracting companies. The questionnaire was initially sent to sales representatives of these contracting companies, who then distributed them to those responsible in the production departments of user companies (441 questionnaires were distributed). Answers were returned by the production departments. The survey was conducted in October and November 2002. There were 105 returns, 23.8 percent of the questionnaires handed out. For further details of the survey, see Hiroki Sato, Yoshihide Sano and Takuma Kimura (2003).
- (2) The material in this section is drawn from Hiroki Sato and Takuma Kimura, 2002.
- (3) For a detailed discussion of the current situation of contracting firms supplying workers to the electrical machine industry, see Hiroki Sato and the Research Center of the Japanese Electrical Electronic and Information Unions ed., 2001.
- (4) Many contracting companies were established in the late 1980s. Hiroki Sato and Takuma Kimura, 2002.
- (5) The most common type of order placement received by contracting firms is for "working on a section of a production line." Production sites would like to see more contract workers supplied for "the entire production line" and "a number of production lines as one lot." The increase in demand for these forms coincides with the need of the contracting companies. Hiroki Sato and Takuma Kimura, 2002.
- (6) Only 27.3 percent of contracting companies regularly allocate "site leaders" when supplying contract workers to production sites. Hiroki Sato and Takuma Kimura, 2002.
- (7) The length of service which contracting companies expect their workers to provide so as to recover their hiring and training costs are, in the case of companies with a large number of contract manual workers and other non-regular employees, "six months or longer but less than a year" (36%), "three months or longer but less than six months" (20%), and "one year or longer but less than two years" (18%). These answers are consistent with the length of service which user companies expect contract workers to provide. Hiroki Sato and Takuma Kimura, 2002.
- (8) Many contract companies answered that they would handle worker dispatching along with contract workers, after the ban is lifted. Hiroki Sato and Takuma Kimura, 2002.

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JIL NEWS AND INFORMATION

The 10th JIL Labor Policy Forum: Accepting Foreign Workers

On December 12, 2002, the Japan Institute of Labour (JIL) held its 10th Labor Policy Forum, the purpose of which was to investigate future prospects for accepting foreign workers. The number of overseas workers has been increasing since 1990 when the Immigration Control and Refugee Recognition Act was revised. Currently, more than 710,000 foreign workers, including undocumented workers, are in Japan. In July 2002, the Ministry of Health, Labour and Welfare's Study Group on the Employment of Foreign People published a report, its first since 1988, concerning "a reappraisal of the system for admitting foreign workers." The report takes into account the labor shortage due to fewer children, and refers to unskilled foreign workers, whom the government has been reluctant to accept. How will policy towards overseas workers be changed? The following is a summary of the keynote address to the forum given by Jiro Nakamura, professor at the Faculty of Economics, Tokyo Metropolitan University.

Keynote Address by Professor Nakamura

The basic policy of the Japanese government has been not to accept unskilled foreign workers into the Japanese labor market because: (1) their presence may reduce job opportunities for other workers; (2) it creates a dual structure in the labor market; (3) it hinders management from improving labor management and productivity; (4) it is likely to make unemployment vulnerable to the fluctuation of economic performance; (5) it creates new social costs; and (6) it is expected that the country of origin and the worker him/herself will be greatly affected. From the standpoint of economics, however, the relevance of these points to reality is dubious.

A number of factors lay behind the need to revise the government's policy towards unskilled foreign workers. Leaving aside the progress of globalization, one point is the likelihood that the Japanese labor force will decrease in the mid- and long-term. In 50 years, people of working age — that is 15 to 64 years old — will decrease by 43 percent from the current level, if the most pessimistic (the low variant) official estimates are used. (The medium variant forecast is 21 percent below the current level.) In dealing with this issue, it will also be necessary to explore the possibilities of increasing productivity and making use of female and elderly people. Another factor is that quite a few workers from abroad are already

engaged in unskilled (or more or less unskilled) jobs. (Professional and technical workers account for 14% of all foreign workers, and illegal foreign workers for some 30%.) The labor force not involved in trading or the so-called "3k" jobs — *kiken* (dangerous) *kitanai* (dirty), and *kitsui* (demanding) — is and will be in demand. In fact, with the progressive graying of society, labor demand in the tertiary industries (in particular personal services) is expected to expand.

Policy towards unskilled non-Japanese workers should be considered after some basic questions have been settled: (1) how many and what kinds of workers should be accepted; (2) who bears the costs involved; (3) what kind of infrastructure must be prepared; and (4) whether the stay of foreign workers should be permanent or short-term (possible controls on the length of stay). At the same time, it is necessary to take into consideration, for example, the fairness and efficiency of the system (or rules), the need for flexibility in the face of possible changes in the social and economic environment, maintaining labor market functions in Japan, and issues affecting foreign workers of Japanese descent. Cases in other host countries will help in building up practical rules for accepting unskilled foreign workers. Such measures taken elsewhere include (1) a labor market test (whereby the government investigates beforehand whether particular types of jobs are not filled by workers at home, and releases work permissions to foreign nationals); (2) a quota system (whereby a government sets a maximum number of new work permissions each year); (3) an employment tax (which is imposed on firms employing foreign workers); (4) a proportional system for foreign workers (whereby there is a maximum percentage of such workers to the total number of workers at each firm); (5) measures to accept qualified foreign nationals (whereby a host country allows in any overseas worker who satisfies certain criteria); (6) a point system (whereby the educational level, work experience, achievements and other qualifications of overseas workers are converted into points, and those whose points meet a certain level are permitted to work); and (7) a bilateral agreement between the countries involved (whereby the number of foreign workers, their period of stay and other conditions are fixed by a predetermined agreement between the governments).

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 or via fax to +81-3-5991-5710.

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