

Japan Labor Issues

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● **Special Feature on Research Papers (II)**

Japanese Companies' Wage Determination in the Heightened Climate for Wage Increases

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Promoting Employment of Older Workers and Adjustment of their Working Conditions at Japanese Firms

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● **Trends**

Key topic

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The *Tori* Case

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● **Series: Japan's Employment System and Public Policy**

What Causes the Gender Wage Gap in Japan?

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● **Statistical Indicators**



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Special Feature on Research Papers (II)

Japan Labor Issues is pleased to present its annual special feature on research papers. The papers in this special feature are selected by the Editorial Office of the journal from various relevant ones published within a year or two, from the viewpoint of communicating the current state of labor research in Japan to the rest of the world.

This year, seven significant papers are presented for three (I-III) starting from the previous issue, vol. 7 no. 41 (<https://www.jil.go.jp/english/jli/backnumber/2023.html#no41>). These papers address the latest subjects as well as conventional themes on labor and surely will offer useful information and deeper insights into the state of labor in Japan. Each author arranged the original papers written in Japanese, for the benefit of overseas readers. We sincerely thank authors for their kind effort.

Editorial Office, *Japan Labor Issues*

Japanese Companies' Wage Determination in the Heightened Climate for Wage Increases

NISHIMURA Itaru

In recent years, the Japanese government has shown a great interest in raising wages. In addition to requesting labor and management to increase wages, it also pursues measures to ensure that the statutory minimum wage is raised on an ongoing basis. How have these developments affected wage management in companies? Based on case studies of companies, this article examines the impact of the government's request for wage increases on the company's wage management. The case studies reveal the following points. First, annual wage increment is undergoing change. The stable portion of wage increases that Japanese wage system used to implement for regular employees is shrinking. Second, the basic wage increase is being utilized as an incentive to encourage employees to behave in such a way that contributes to improving their company's ability to compete. Third, increases in regional market rates are generating problems for companies in their wage management of non-regular employee. This increase has led to a break down in the ordered ranking structure by which wages reflect employees' abilities and roles within the company. Fourth, labor and management are engaged in eradicating these problems. These results indicate that labor-management negotiations are becoming increasingly important in determining wages for both regular and non-regular employees. It appears to have become more important to examine the frameworks for labor-management communication within corporate organizations to enhance the wage determination desirable for both labor and management.

- I. Introduction
- II. Wage determination principles by form of employment
- III. Issues examined in this paper
- IV. Analysis results
- V. Conclusion and discussion

I. Introduction

Wage increases have been a topic of great interest to the Japanese government in recent years. In addition to urging labor and management to ensure wage increases, the government also pursues measures to ensure that the statutory minimum wage is raised on an ongoing basis. Such an approach at government level may be the very stuff of dreams from the point of view of labor unions in other countries. Looking at past developments in economically advanced countries such as the UK and Sweden, it appears that such governments have never sought wage increases—if anything, they take action to ensure that wage increases are *curbed*. The Japanese government’s tendency to pursue wage increases may be attributable to the fact that, in Japan, wages have tended not to increase despite personnel shortages. With the labor market’s demand and supply mechanism not functioning as expected, the methods of raising wages are being explored.

While it is difficult to accurately measure whether the government’s calls for wage increases have an impact on labor-management negotiations at individual companies, negotiations for wage increases are being pursued by labor and management. Table 1 shows the state of demands regarding wage increases beyond the funds for wage increases originally assigned as necessary for the operation of the wage system—namely, the “demands for

Table 1. Content of wage increase demands (FY2009-2019, %)

Companies with 5,000 employees or more

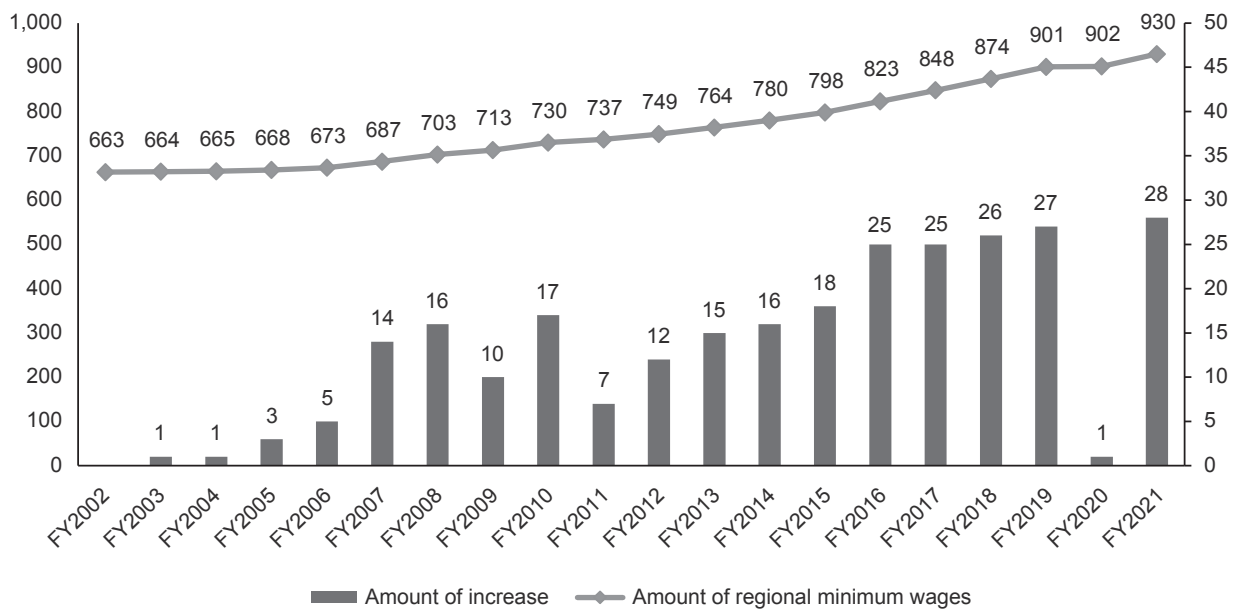
Year	Demands for a concrete amount of wage increase	Demands to maintain the wage structure	Unknown	Total
2009	74.2	23.5	2.3	100
2010	52.2	46.2	1.6	100
2011	59.7	40.3	-	100
2012	61.5	37.3	1.2	100
2013	51.9	47.3	0.8	100
2014	87.8	9.9	2.3	100
2015	90.7	6.3	3.0	100
2016	88.5	8.7	2.8	100
2017	90.3	6.7	3.0	100
2018	88.8	9.7	1.5	100
2019	91.9	7.4	0.7	100

Companies with 1,000-4,999 employees

Year	Demands for a concrete amount of wage increase	Demands to maintain the wage structure	Unknown	Total
2009	67.9	30.9	1.2	100
2010	52.3	43.5	4.2	100
2011	50.8	47.4	1.8	100
2012	55.4	43.9	0.7	100
2013	57.6	38.3	4.1	100
2014	83.9	11.7	4.4	100
2015	79.9	15.3	4.8	100
2016	84.1	11.2	4.7	100
2017	75.0	22.0	3.0	100
2018	82.9	14.3	2.9	100
2019	89.6	8.4	2.1	100

Note: The figures show the percentages accounted for by “companies at which negotiations were taken place to pursue on the basis of demands for wage increases” among industry totals for each year.

Source: Created by the author based on the MHLW’s “Survey on Wage Increase.”



Source: Created by the author based on the *Chiiki-betsu saitei chingin no zenkoku ichiran* [List of regional minimum wages], MHLW.
 Note: The line graph shows the national weighted average of regional minimum wage amounts. The bar graph presents the year-on-year difference in amounts of increase in regional minimum wages.

Figure 1. Status of increase in minimum wages (FY2002-2021, yen)

a concrete amount of wage increase”—among companies where wage negotiations were taken place. As the table shows, there has been a heightened climate for wage increases since 2014. Prior to that year’s round of annual wage negotiations—known as *shunto* (spring wage offensive)—then Prime Minister Shinzo Abe requested labor and management to ensure wage increases. 2014 is therefore considered a symbolic year, in which the government took a direction that could be described as *reverse* income policy.

In addition to such developments, increases to the minimum wage are also being implemented on an ongoing basis. As shown in Figure 1, while increases in the early 2000s have only been around a few yen year-on-year, the increase since 2016 is over 20 yen.¹ Minimum wage increases are being implemented at rapid pace.

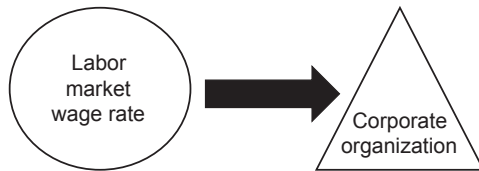
What kind of impact has such a heightened climate of wage increases had on companies’ wage management? This paper draws on case studies of companies to reveal the effects of the government’s requests for wage increases on companies’ wage management.

II. Wage determination principles by form of employment²

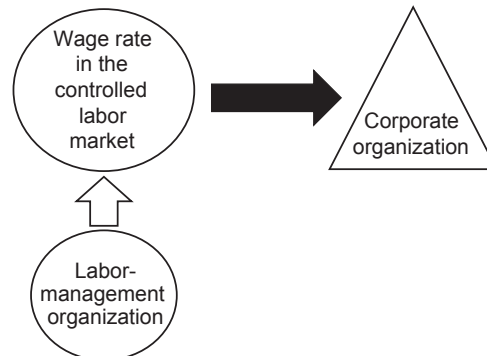
1. Patterns of wage determination

There are three patterns by which wages are determined, depending on the corporate organization’s relationship with the labor market. Figure 2 presents a concise overview of three wage determination patterns: firstly, the corporate organization is significantly influenced by the labor market and essentially determines wages based on the market rate (Pattern 1); secondly, the corporate organization determines wages in accordance with a labor market controlled by labor-management organizations and other such entities across the companies (Pattern 2), and thirdly, the corporate organization is barely influenced by the labor market and determines wages according to its own rules (Pattern 3).

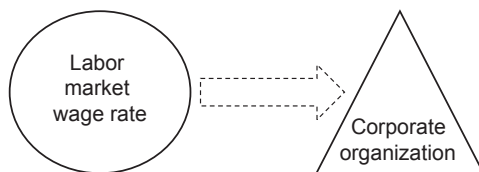
Pattern 1: The corporate organization is significantly influenced by the labor market and essentially determines wages based on the market rate.



Pattern 2: The corporate organization determines wages in accordance with a labor market controlled by labor-management organizations and other such entities across the companies.



Pattern 3: The corporate organization is barely influenced by the labor market and determines wages according to its own rules.



Source: Created by the author based on Ishida and Higuchi (2009), JILPT (2017), and Marsden (1999).

Figure 2: Wage determination patterns

If we assume that wages are determined according to one of these three patterns, the determination of wages for regular employees in Japan falls under Pattern 3. This unique lack of labor market influence on wage determination at companies in Japan is even more evident when a comparison is drawn with the US and European countries. Comparing the employment systems of the UK, US, Germany, and Japan, Marsden (1999), for example, notes that corporate organizations in Japan, in contrast with those in the other three countries, have the distinctive ability to define their own employment rules, given the lack of inter-company restrictions.

What do we mean here by inter-company restrictions? Ishida and Higuchi (2009) draw on case studies revealing the distinctive features of the wage systems in the US and Japan and note that in the US labor market, each job title is assigned a monetary value. For instance, at one company, market research is conducted on all jobs within the company, of which there are as many as 1,800. Each job is then divided into categories, such as “Financing manager Category I, II, III and IV,” such that there are as many as several thousand job titles within the company. These titles significantly influence the determination of the amounts of wages employees receive. At the same time, companies in the US define their own internal hierarchy of jobs and seek to ensure that the jobs that play important roles in business operations are assigned higher wages (Higuchi 2011). If these wage levels determined within the company according to their internal job hierarchy diverge from market rates, the market rates are given precedence. The US approach therefore falls under Pattern 1 where the corporate organization essentially determines wages on the basis of the market rate and the market rates take precedence over the wages that a company may determine according to its own criteria. While Japan has also seen an increase in companies placing importance on factors such as job content, duties, and performance since the introduction of performance based pay system in the late 1990s, as yet only a highly limited number of companies have developed a system linking their wages with the market rates such as that seen in the US (Ishida and Higuchi 2009). The concept of *shigoto* (job content or job duties), which plays such a key part in the determination of wages in Japan, is not that of established occupation types within the labor market, but the employee’s work (in other words, his or her role in the company) as adapted to suit the company’s management strategy and business plan (Umezaki 2008; 103).

Japan is therefore distinctive in the way in which its companies, unlike those in the US, form a tight barrier to the market rate.³

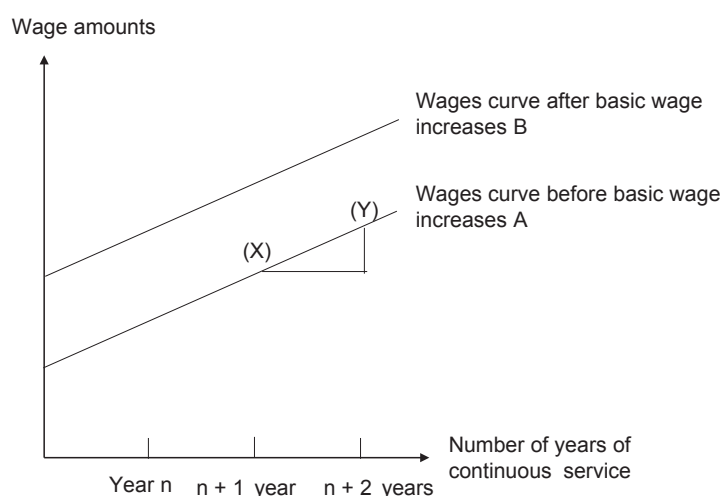
However, that is not to suggest that a country will be restricted to a single pattern of wage determination. The pattern that is applied may differ according to occupation type or form of employment. In the case of Japan, regular employees fall under Pattern 3, while non-regular employees fall under Pattern 1. The wages of non-regular employees are determined according to the market wage rate in the region (hereafter, the “regional rates,”) and it is the statutory minimum wage that influences the formation of that market rate. A rise in the statutory minimum wage will prompt a rise in the regional rate, and ultimately also influence the wages of non-regular employees.

Wage determination patterns in Japan therefore differ according to form of employment. In the case of regular employees, wages are determined according to the corporate organization’s own rules. For non-regular employees, wages are determined according to market rules. The principles for determining wages differ from regular to non-regular employees.

2. Distinctive features of wage determination for regular employees

Let us start by identifying the distinctive features of the wage determination of regular employees, which falls under Pattern 1. The amounts by which pay is increased (or reduced) consist of a portion determined by the operation of the wage system and a portion determined by labor-management negotiations within the company. Increases in pay according to the operation of the wage system are known as *teiki shokyu* (annual wage increments). Annual wage increments are the pay raises that are guaranteed by the system in accordance with the personnel and wage systems under the existing wage curve. The other portion of wage increases brought about by labor-management negotiation are across-the-board pay raises (basic wage increases, called “base up” in Japan) which are the wage increases that are generated by changing wage curve itself. In Japan, the wage increases implemented as a result of *shunto* wage negotiation are basic wage increases. While both annual wage increments and basic wage increases are elements by which employee's wage increases are determined, they differ in terms of the method with which they do so.

Figure 3 draws on Imano and Sato (2020) to present the relationship between annual wage increments and basic wage increases. Looking firstly at annual wage increments, these are regular wage increases that occur in accordance with the rules of the company’s personnel and wage systems as described above. More specifically,



Source: Created by the author based on Imano and Sato (2020).

Figure 3. Annual wage increment system and basic wage increases

annual wage increments are the amounts of wage increase that are determined on the basis of the grade system, wage table, and evaluation system. The grade system is the foundation of the personnel and wage system (Imano and Sato 2020, Hirano and Enatsu 2018), by which the relevant employees are graded in ranks (e.g., Grade 1, Grade 2) on the basis of what can be described as some form of “criteria of excellence.” The criteria for such ranks take into consideration a variety of factors, such as number of years of continuous service, the abilities that employees possess, and the jobs that they are engaged in. Companies design their grading system on the basis of these internally defined “criteria of excellence” for employees.

Wage tables are constructed to correspond with grade system, such that employees' wages are determined according to the grade that they have been allocated. The amount of wages that will be paid according to the grade and wage table is determined by the evaluation system. Managers typically conduct an evaluation of their employees in accordance with the evaluation system. Such evaluation is known as *jinji kōka* (personnel rating, sometimes also referred to as *satei*). Each employee's wages for the following financial year are determined on the basis of the results of the personnel rating.

How do annual wage increments occur under such a system? Let us say, for example, that there is a wage table with predetermined amounts of wage increase for each evaluation result, such as 1,500 yen for Evaluation Rating A, or 1,000 yen for Evaluation Rating B. The wage increases that arise under such a system are the annual wage increment portion. In other words, annual wage increments are the portion of wage increase that is built into the wage system. In terms of Figure 3, the change from (X) to (Y) is the annual wage increment.

The Ministry of Health, Labour and Welfare (MHLW)'s “Survey on Wage Increase” defines annual wage increments as “wage increases implemented in a given period each year in line with systems predetermined by collective agreements, employment regulations and other such means. In addition to automatic increases by age or number of years of continuous service, increases according to personnel ratings based on ability or performance in a given period may also be included.” As this definition shows, while the wage increases automatically occur annually, their extent is determined according to evaluation of ability and performance. More specifically, annual wage increments are the system by which, while a typical employee's wages follow a standard line of wage increase determined by labor and management in each company, the actual amount of wage increase is determined according to the results of personnel rating (Umezaki 2008).

While there are various opinions as to when annual wage increments were introduced, it is said that they were established as a system in around the mid-1950s.⁴ Looking exclusively at the postwar developments, annual wage increments were introduced as a result of calls from employers, as a means of making a division in wage management between wage increases for the purpose of maintaining living standards and wage increases for contributions to the company (such as productivity and efficiency) (Sato 1999). That is, annual wage increments are the portion of wage increase that was introduced as the latter of the two—namely, the portion of wage increase that reflects contributions to the company's operations. Results from the “Survey on Wage Increases” show that among companies with an annual wage increment system, 76.8% have such a system for managerial level employees, and 82.5% have such a system for non-managerial level employees. As this indicates, the system is widely adopted by Japanese companies.

The important aspect of annual wage increments in relationship to wages in Japan is that annual wage increments are to serve as the institutional foundation for Japan's seniority-based wage curve.⁵ However, this does not necessarily mean that Japanese wages are seniority based and ignores ability and performance. This is because, as confirmed in the aforementioned definition set out for the MHLW survey, it is not the case that all employees can equally receive the same amount of wage increase. The wage increases take into account the individual employee's ability and performance. Wages are not only determined by age or years of continuous service.

The other means of pay increase, basic wage increase, is the wage increase that is generated by changes to the wage curve. More specifically, it refers to wage increases brought about by revision to the wage table. For instance, basic wage increase is the wage increase that is generated by adjustments to the wage table itself, such

as changing the wage portion assigned for Evaluation Rating A from to 1,500 yen in the existing wage table to 2,000 yen in the revised version. It is a wage increase, but in a different approach from that of the annual wage increments. In terms of Figure 3, the change from Wage Curve A (the curve based on the former wage table) to Wage Curve B (the curve based on the new wage table) represents a wage increase brought about by basic wage increase.

While annual wage increments are wage increases that arise through the operation of the personnel system, basic wage increases are wage increases brought about by labor-management negotiations. Although basic wage increase is now implemented as a general trend since 2014, there was formerly a negative stance among employers toward such wage increases from the late 1990s onward (Ogura 2017). For example, survey results from Mitsubishi UFJ Research and Consulting (2014) show that of the companies that implemented basic wage increases in 2014, over 70% of companies responded that they had “implemented basic wage increases for the first time in six years or more.” These also included companies that were implementing basic wage increases for “the first time in 14 years or more,” which accounted for around 15% of them.

What purpose does basic wage increase serve as a wage increase? Labor union demands until the 1990s were rooted in the principle of “maintaining the annual wage increment + securing the equivalent of the increase in consumer prices in order to maintain/improve real wages + improving living standards” (underlining by the author) (Japan Institute for Labour Policy and Training [JILPT] 2014). It was basic wage increase that has served as the wage increase to cover these underlined aims. Namely, up until it was revived, basic wage increase was principally aimed at maintaining and improving living standards. This therefore indicates that it was a wage increase that was expected to function as a means of maintaining and improving livelihood. In contrast, annual wage increments were, as shown above, wage increases corresponding to factors such as the growth of a company or the employee's performance.

Do the annual wage increments and the revived basic wage increase follow the same relationship as before? Or do they follow a different relationship? Have changes arisen in the means by which the wages of regular employees are determined according to organizational rules? These are important questions to consider in relation to the wages of regular employees in Japan.

3. Wages of non-regular employees

Let us next establish the distinctive characteristics of the wage determination of non-regular employees, who fall under Pattern 1 in Figure 2. The wages of non-regular employees are, in contrast with those of regular employees, strongly influenced by the market rates. As Ishida (2006) describes it, non-regular employees are the group to which the “market wage rate” is applied. However, as reflected by discussion highlighting the trend toward non-regular employees becoming the core workforce, there are non-regular employees who engage in more sophisticated tasks within their organizations, as opposed to merely basic tasks.⁶ Along with this increasingly key role of non-regular employees in the workforce, there is also a trend toward applying the grade system and evaluation system to non-regular employees. It is becoming ever more necessary for the wage management of non-regular employees to reflect the increasingly advanced nature of their work by drawing on an ability-based hierarchy of employees.

In line with such practical developments in the utilization of human resources in companies, there are companies that have established systems that allow for non-regular employees' wages to differ depending on an individual employee's performance and ability.⁷ In other words, this is the expansion of the portion of wages determined according to the rules of the corporate organization. What impact has the introduction of the rules of the corporate organization in the determination of the wages of non-regular employees had on the management of non-regular employees' wages, which were conventionally determined based on the market? For instance, how have the shifts in the regional rates along with the rises in regional minimum wages affected the management of non-regular employees' wages? Addressing these questions is an important part of examining the wages of Japan's non-regular employees.

III. Issues examined in this paper

In the previous section we looked at the basic rules on the determination of wages for regular employees and non-regular employees. With these rules in mind, there are two following issues that need to be examined given the context of the trend toward wage increases in recent years. Firstly, light must be shed on the following aspect of the determination of wages of regular employees, which falls under Pattern 3 (the corporate organization is barely influenced by the labor market and determines wages according to its own rules):

Question 1: Given that basic wage increase has been revived, upon what grounds are such wage increases implemented?

Secondly, it is necessary to address the following question regarding the determination of wages of non-regular employees, under Pattern 1 (the corporate organization is significantly influenced by the labor market and essentially determines wages on the basis of the market rate):

Question 2: Given that the rules established by corporate organizations coexist with those of the labor market, surely increases in regional rates create issues for companies in their wage management?

This paper examines the issues set out above by drawing on the content of case studies on personnel and wage systems conducted by the JILPT (2022). The cases covered are major companies with 1,000 or more employees and are organized by labor union.⁸ That is, the studies focused on major companies with advanced levels of labor-management communication. The analysis regarding regular employees draws on case studies from 15 companies. Results regarding non-regular employees are drawn from case studies of five companies that are utilizing non-regular employees and adopted their own internal rules for determining non-regular employees' wages.⁹

There are several points to bear in mind regarding the analysis in this paper. Firstly, the analysis addresses the period prior to the COVID-19 pandemic. The current period of sharp price increases is therefore excluded from the analysis. Secondly, the employees addressed in the case studies are, in the case of regular employees, non-managerial level employees. This is due to the fact that reform to systems for treatment of non-managerial employees is the main subject of discussion at policy level. In the case of non-regular employees, analysis focuses on directly-hired non-regular employees, largely those working full-time or pursuing a similar style of working. Indirectly hired non-regular employees were excluded from the analysis.

IV. Analysis results

1. Annual wage increments and basic wage increases

(1) Distinctive features of wage tables for regular employees

The system of annual wage increments has typically been regarded as a distinctive feature of Japan's wage system. What kind of transformation has it been through? As discussed above, the formation of the seniority wage curve—another element of the wage system that is unique to Japan—was formed based on the annual wage increment system. Looking further in history, this stable wage increase system incorporating personnel rating has been highlighted as having come about under the *tsumiage-gata* (*gradual build-up type*) wage table based on the concept of the wage increases being built up upon each other (Nishimura 2017). According to Kusuda (2006), which summarizes the distinctive features of the *tsumiage-gata* wage table, annual wage increments were conducted based on two wage tables: the *shokyu hyo* (wage increase table) and the *dankai goho hyo* (evaluation-based wage step table).

The *shokyu hyo* is a table specifying amounts of wage increase according to personnel rating results for each grade (Figure 4). The amount of wage increase may differ from employee to employee according to their evaluation result. Taking Grade J-1 as an example, the amount of wage increase is 2,500 yen if the evaluation result is Rank B, and it is 2,800 yen in the case of Rank A. Wages are built upon with a determined amount of wage increase added each year.

An alternative form of wage table is the *dankai goho hyo* (Figure 5), by which employees accumulate wage increases on the basis of personnel ratings, in amounts within a range of predetermined lower and upper limits for each grade. Whether or not an employee is able to move up a step is determined on the basis of evaluation. The number of steps that employees are able to advance according to their evaluation is predetermined—for

(Unit: yen)

Grade \ Rank	S	A	B	C	D
J - 1	3,100	2,800	2,500	2,200	1,900
2	3,400	3,100	2,800	2,500	2,200
3	4,000	3,600	3,200	2,800	2,400
S - 4	4,400	4,000	3,600	3,200	2,800
5	4,800	4,400	4,000	3,600	3,200
6	5,500	5,000	4,500	4,000	3,500
M - 7	6,000	5,500	5,000	4,500	4,000
8	4,800	4,400	4,000	3,600	3,200
9	3,600	3,300	3,000	2,700	2,400

Source: Prepared by the author based on Kusuda (2006).

Figure 4. *Shokyu hyo* (wage increase table)

(Unit: yen)

Grade \ Step	J - 1	J - 2	J - 3	S - 4	S - 5	S - 6	M - 7	M - 8	M - 9
1	31,700	44,800	58,600	77,800	98,200	127,000	175,100	230,100	294,100
2	32,200	45,300	59,200	78,500	99,000	127,900	176,100	230,900	294,700
3	32,700	45,800	59,800	79,200	99,800	128,800	177,100	231,700	295,300
4	33,200	46,400	60,400	79,900	100,600	129,700	178,100	232,500	295,900
5	33,700	47,000	61,000	80,600	101,400	130,600	179,100	233,300	296,500
⑥	34,200	47,600	61,800	81,400	102,200	131,500	180,100	234,100	297,100
7	34,700	48,100	62,400	82,100	103,000	132,400	181,100	234,900	297,700
8	35,200	48,600	63,000	82,800	103,800	133,300	182,100	235,700	298,300
9	35,700	49,200	63,600	83,500	104,600	134,200	183,100	236,500	298,900
10	36,200	49,800	64,300	84,200	105,400	135,100	184,100	237,300	299,500
⑪	36,700	50,400	65,000	85,000	106,200	136,000	185,100	238,100	300,100
12	37,200	50,900	65,600	85,700	107,000	136,900	186,100	238,900	300,700

Source: Prepared by the author based on Kusuda (2006).

Figure 5. *Dankai goho hyo* (evaluation-based wage step table)

instance, a standard evaluation result is assigned an increase of five steps, while a higher evaluation is assigned seven steps. In the example shown in this figure an employee who receives a standard evaluation advances five steps up the wage scale. If an employee who is at Step 1 of Grade J-1 receives a standard evaluation result, they will advance to Step 6 of Grade J-1, and their wages will therefore be increased from 31,700 yen to 34,200 yen. This is the same approach as the *shokyu hyo* in terms of the fact that wages differ according to the employee's evaluation result.

The distinctive feature of such *tsumiage-gata wage table* is that once an employee has entered a company their wages are increased according to a stable process. Employees were therefore able to ensure that their wages increased through their own work performance, without relying on labor union's collective voice. This in turn allowed employees to feel motivated toward their work and served as an incentive to improve their skills (e.g., Ishida 1990 and Koike 2015).

Every few years, the MHLW's "General Survey on Working Conditions" includes questions on revisions to the wage system in the previous three years. Table 2 shows the progress in 2004-2017 of revision among companies with 1,000 or more employees. In the 2004 Survey, 61.1% of companies responded that they had made revisions, indicating that the majority of companies had implemented some form of change. The percentage that implemented revisions subsequently declined over time, dropping to 30.3% in the 2014 Survey, and then increased again to 37.0% in 2017. As this shows, revisions to wage systems are being implemented regularly. How do these revisions to wage systems lead to changes in the wage tables?¹⁰ How have the forms of appraisal-based, *tsumiage-gata wage table* identified above changed at present? Alternatively, are such wage tables still mainstream even now?

Table 3 compiles the distinctive features of the major wage tables for regular employees' *kihonkyū* (base pay) base pay of the 15 case study companies. Firstly, all of the companies follow a simple wage structure for base pay. Base pay is made up of one category at eight of the 15 cases, and of three categories at most among other cases with multiple categories.

As shown in the table, there are various different terms for referring to base pay, such as *honkyū* (main pay), *yakuwari-kyu* (role-based pay), *shikaku-kyu* (qualification-based pay), and *shokuno-kyu* (ability pay). Even the same term may differ entirely in meaning from company to company. For instance, "main pay" may be age-based pay at one company but constitute a completely different type of pay at another. Wages may be referred to as "role-based pay" and yet also have the features of the gradual build-up approach. It is therefore difficult to surmise the particular features of each company's wages based on the terms used to describe them. It is necessary to examine the contents of the actual wage tables.

Let us identify the distinctive features of each of the companies. Firstly, the majority of the case study companies have already done away with wage systems by which wages are increased according to age. Only four of the 15 cases possess such a wage system (main pay of Machinery Manufacturer B, main pay of Textile Company E, age-based pay of Supermarket H, and age-based pay of Home Improvement Center O). Electronics

Table 2. Trends in the wage system revisions

(Unit: %)	
Year	Rate of companies that revised wage system
2004	61.1
2007	56.5
2010	37.0
2014	30.3
2017	37.0

Source: Created by the author based on the MHLW "General Survey on Working Conditions."

Note: The figures are for companies with 1,000 or more employees (total for job class and total for industry).

Table 3. Distinctive features of wage tables for regular employees' base pay (15 case study companies)

	Automobile Manufacturer A	Machinery Manufacturer B	Electronics Manufacturer C	Electronics Manufacturer D	Textile Company E	Electrical Equipment Manufacturer F	Telecommunications Company G	Supermarket H
Structure of base pay	Main pay	Main pay (age-based), Ability pay, Results-based pay	Main pay	Role-based pay	Main pay (age-based), Ability pay	Main pay	Qualification- based pay, Ability pay, Results-based pay (certain upper grades)	Job and ability based pay, age-based pay, region-based pay
Type of main wage table for base pay	<i>Zoned wage increase table</i>	<i>Single rate (Ability pay)</i>	<i>Zoned wage increase table</i>	<i>Reassessment</i>	<i>Gradual build up</i>	<i>Zoned wage increase table</i>	<i>Single rate</i>	<i>Gradual build up</i>
Percentage of <i>Zoned wage increase table, Single rate, or Reassessment</i> to base pay	100%	Approx. 40%	100%	100%	—	100%	Approx. 40-50%	—

	Supermarket I	Department Store J	Insurance Company K	Financial Services Company L	Electronics Retail Store M	Drugstore N	Home Improvement Center O
Structure of base pay	Qualification- based pay, Ability pay	Results-based pay	Job-related pay	Role-based pay	Job-related pay, qualification- based pay	Ability pay	Age-based pay, Ability pay (role-based pay for those at subsection chief level or above)
Type of main wage table for base pay	<i>Single rate</i>	<i>Zoned wage increase table</i>	<i>Zoned wage increase table</i>	<i>Gradual build up</i>	<i>Reassessment</i>	<i>Gradual build up</i>	<i>Gradual build up</i>
Percentage of <i>Zoned wage increase table, Single rate, or Reassessment</i> to base pay	Approx. 80-90%	100%	100%	—	Approx. 70-80%	—	—

Source: JILPT (2022).

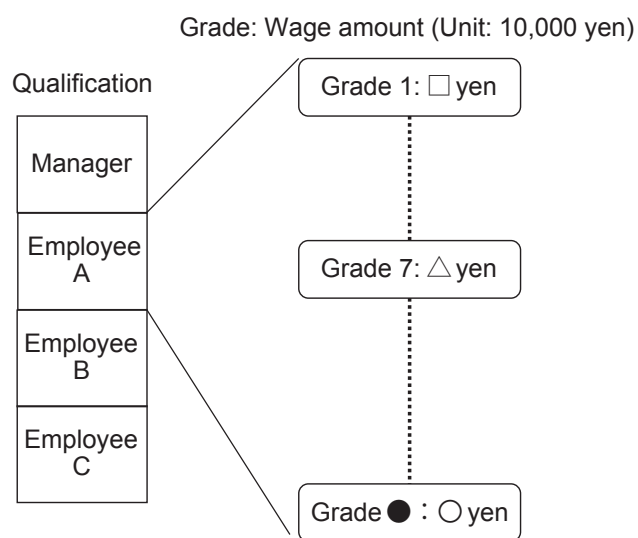
Retail Store M's wage structure similarly had a portion determined according to age (qualification-based pay). The decreasing portion of base pay reflecting age is a common trend across all industry types. Secondly, as for the wage tables, there are as many as 10 companies that have introduced the single rate or zoned wage increase tables, which are different from gradual build-up type tables. Looking at the wage tables introduced by the surveyed companies, the distinctive features of the major pay categories—the categories that occupy the highest proportion of base pay—can be grouped into four types: *tsumiage-gata* (*gradual build-up type*) wage table, *han-i araigae-gata* (*reassessment type*) wage table, *single rate* wage table, and *zoned wage increase table*.

(i) *Tsumiage-gata* (*gradual build-up type*) wage table

Five companies (Textile Company E, Supermarket H, Financial Services Company L, Drugstore N, and Home Improvement Center O) are utilizing *tsumiage-gata* wage table. These companies have adopted wage tables similar to the *shokyu hyo* and *dankai goho hyo* shown in Figures 4 and 5. It should also be noted that all five companies adopt the approach of assigning wages within a predetermined lower and upper limit for each grade. As this system is operated such that wage decreases are essentially not expected to occur, employees smoothly advance to the upper limit of the wage range for their grade. However, wage increases peak when they reach the upper limit.

(ii) *Han-i kyu araigae-gata* (*reassessment type*) wage table

Two companies (Electronics Manufacturer D and Electronics Retail Store M) have introduced *han-i kyu araigae-gata* wage table. Such tables set out definitive amounts of wage increase according to appraisal results for each grade.



Source: JILPT (2022).

Note: These are not the official terms used by Electronics Retail Store M to describe the qualification levels.

Figure 6. Wage table of job-related pay (Electronics Retail Store M)

Figure 6 presents the *shokumu-kyu* (job-related pay) for Electronics Retail Store M. It is a wage range salary with wage ranges determined for each qualification. The wage amounts are determined for each grade, such that, within the range, Grade 1 of the wage range receives a certain amount, while Grade 2 receives another, and so on.

An employee's grade is determined by a semiannual evaluation. The evaluation result determines the grade the employee falls under—for example, for an employee who receives a standard evaluation result (e.g., Evaluation score C), wages remain the same; an employee who receives high evaluation (e.g., Evaluation score A) advances one grade higher, while an employee who receives low evaluation (e.g., Evaluation score D) goes down one grade.

The results of these semiannual evaluations determine the amounts of job-related pay they will receive. As job-related pay is therefore determined according to the semiannual evaluations, provided they receive the same evaluation results, employees in the same qualification will receive the same amount of wages.

In the *han-i kyu arai-gata wage table* wage amounts change according to annual (or semiannual) evaluation, as opposed to wage increases that gradually build up on the basis of an employee's former wage level. An evaluation may not only result in wage increase, but also in wages remaining the same or being reduced. In contrast with the wage increases of *tsumiage-gata wage table* where employees' wages rise stably, this is a wage table in which the stable portion of the wage increase is curbed.

(iii) *Single rate wage table*

The single rate approach refers to wage tables in which a certain wage amount is fixed for each qualification grade. This means that an employee who remains in the same qualification grade will not receive an increase in base pay. Said employee needs to be promoted to the next qualification grade up in order to see an increase in their wages. Three of the case study companies used single rate as the major element for determining base pay (Machinery Manufacturer B, Telecommunications Company G, and Supermarket I).

Figure 7 shows the single rate approach used by Telecommunications Company G. In this wage table, each qualification grade is assigned a fixed wage amount, such that as long as an employee remains in the same grade,

Qualification grade	Wage amount (Unit: 10,000 yen)
Qualification 3	○○ yen
Qualification 2	△△ yen
Qualification 1	◇◇ yen

Source: JILPT (2022).

Note: These are not the official terms used by Telecommunications Company G to describe the qualification levels.

Figure 7. Wage table (Telecommunications Company G)

there will be no change in the amount of wages they receive. Promotion to a higher qualification grade also results in an increase in the amount of base pay. Under the single rate approach, the qualification grade in which the employee is currently ranked is the amount of base pay, and as long as the employee remains in that grade their wages neither increase nor decrease. In comparison with the *tsumiage-gata wage table*, this is a wage table in which the stable portion of wage increase is suppressed.

(iv) Zoned wage increase table

Zoned wage increase table is the newest form of wage table. Five of the 15 case study companies had introduced this type of wage table (Automobile Manufacturer A, Electronics Manufacturer C, Electrical Equipment Manufacturer F, Department store J, and Insurance Company K). A distinguishing feature of this table is that the wage range of each qualification grade is further divided into several zones, and a salary increase amount or salary decrease amount corresponding to evaluation result is assigned to each zone. At the same time, a wage level designed to serve as the standard level is defined for each grade, and wage increase amounts and wage decrease amounts are set such that employees' wages converge around the standard level.

Figure 8 shows the zoned wage increase table (table for performance-based pay) of Department Store J. There is a defined amount of pay for each rank, and the rank increases or decreases according to the evaluation result. The number of ranks by which an employee goes up or down the ranks is determined according to the evaluation, in such a way that the amounts converge around the standard level rank. The labor union of Department Store J noted the following during their interview:

“The shaded row in the middle [of the wage table; addition by the author], what we call the standard rank, is the rank where there is no increase if the employee receives standard results. The structure is essentially such that the wage amounts cluster around the center [of the wage range of each grade; addition by the author]. The concept follows the former approach of a certain wage for a certain job, while at the same time, given the inevitable demand for distinguishing between different evaluation results within the same job or job position grade, such a mechanism by which wages cluster around the middle was adopted.”¹¹

The intensity of such clustering differs from company to company. Among the cases, Automobile Manufacturer A and Electrical Equipment Manufacturer F have introduced systems with weak convergence of wage levels. In contrast, Insurance Company K, Electronics Manufacturer C, and Department Store J have adopted wage tables with strong convergence.

Another distinctive feature that should not be overlooked is the tendency for the standard level to be determined according to standards that differ from the labor market wage rates. Only Insurance Company K had

Rank	Wage amount (Units: 10,000 yen)	Evaluation				
		Highest	[Omitted]	Standard	[Omitted]	Lowest
39	* * yen	No rank change (stay)		5 ranks down		10 ranks down
38	* * yen	No rank change (stay)		5 ranks down		10 ranks down
37	* * yen	1 rank up		4 ranks down		9 ranks down
[Omitted]						
20	* * yen	5 ranks up		No rank change (stay)		5 ranks down ← Standard rank
[Omitted]						
3	* * yen	9 ranks up		4 ranks up		1 rank down
2	* * yen	10 ranks up		5 ranks up		No rank change (stay)
1	* * yen	10 ranks up		5 ranks up		No rank change (stay)

Source: JILPT (2022).

Note: Rank numbers and numbers for increase or decrease in rank are imaginary and differ from the actual figures.

Figure 8. Wage table for performance-based pay (Department Store J)

defined a standard level in accordance with the wage rates of the price of external labor market. This shows that even today the wage determination of regular employees fall under Pattern 3 as defined in Figure 2. This is clearly demonstrated by the following comment from the labor union of Electronics Manufacturer C:

“Try to see it as the format that labor and management have developed on the basis of our sense of which level corresponds with which rank, including the various approaches we have adopted up until now for assigning ranks and raising wages, given the lack [of price of external labor market; addition by the author]. Although it would be simpler if we could clearly define the level. . .”¹²

Zoned wage increase table is another form of table where, in comparison with those using the gradual build-up approach, the stable portion of wage increase is curbed. Rather than following market rates, the company defines a wage level it believes appropriate for each grade, taking into consideration the wage levels under the company’s past wage system at the same time. That is, the level tends to be determined according to the standards of that corporate organization.

In this section, we have established the current developments regarding the wage tables adopted by companies, as well as confirming the four types of wage table for the major categories that make up base pay. Ten of the 15 cases were utilizing a wage table other than the gradual build-up approach. Wage tables other than the gradual build-up approach are becoming more widely adopted. This indicates that wage systems are being revised in the direction of curbing the stable wage increase portion. Namely, there is less room for individual employees’ efforts to ensure wage increases.

(2) State of implementation and objectives of basic wage increases

Given that, as seen above, there is decreasing leeway for employees to secure wage increases through their own efforts, what methods are being pursued to bring about wage increases through labor-management negotiations? What are the objectives of implementing wage increases?

Of the 15 case study companies, as many as 12 companies had rewritten their wage tables and implemented basic wage increases. As this shows, the majority of companies are implementing basic wage increases. However, unlike the example shown in Section II-2, there are also companies that have not rewritten their wage tables (Automobile Manufacturer A, Supermarket H). Moreover, looking in detail at those that do rewrite their wage

tables, while some companies rewrite all qualification grades, there are also companies that rewrite specific qualification grades. For instance, at Telecommunications Company G and Supermarket I, there were regular employees who were not eligible for allocation of basic wage increases. This indicates growing diversity in the approaches to implementing basic wage increase.

With the increasing diversity of basic wage increase, its objectives are also changing. As noted in Section II-2, the principal aim of basic wage increase was originally to maintain and improve living standards. That objective has taken a backseat in the approaches to basic wage increases since its revival in 2014. Instead, basic wage increase tends to be implemented for the purposes of securing human resources and boosting employees' motivation. The labor union of Automobile Manufacturer A commented as follows:

“The point is that, to put it another way, it [the employee’s wage; addition by the author] is the value of their work, or the equivalent value of their labor, and therefore, in terms of our movement, the basic stance seems to be that if commodity prices and the value of wages remain unchanged, the wages assigned to each grade of role, which represent the value of work, should remain the same. The overriding principle is therefore to essentially avoid rewriting current wage table.”¹³

Amid such changes, companies have utilized basic wage increases as a means of increasing the wages of the lower grades in order to enhance their potential to recruit new employees, and raising wages for specific employees. For instance, Supermarket H provides an additional wage increase for those employees who receive evaluation result higher than a standard level (Evaluation A or above in this case) in their personnel appraisal, by allocating a portion of basic wage increases as a special additional amount. Basic wage increases is in some cases being implemented in this way as a wage increase for employees who are performing particularly well. Such an approach was introduced at Supermarket H on the request of the labor union.

It is also noteworthy that Textile Company E and Home Improvement Center O are implementing increases of age-based pay, which is a type of pay considered to be strongly linked with cost of living. This approach is, however, aimed at securing wage increases suited to the work performance of older employees, as opposed to seeking to raise wage levels to improve employees' standard of living. Automobile Manufacturer A also adopts the basic wage increase approach to increase wages as a secure means of encouraging employees to cooperate with the Continual Improvement (*Kaizen*).

As established in Section II-2, it has typically been annual wage increments that have been utilized as an incentive for employees to engage in their work in such a way that will contribute to competitiveness of companies. The examples we have looked at show that basic wage increase is also being utilized as such an incentive.

2. Increase in minimum wages and wage systems of non-regular employees

(1) Wage systems of non-regular employees

Regular employees' wages are determined according to the criteria of the corporate organization. Only Insurance Company K adopts an approach by which wage determination is adjusted according to the price of labor market. For *non*-regular employees, however, it is an entirely different world—their wages are influenced by the labor market. Let us therefore look at what forms of wage management are being conducted in the case of employees whose wages are influenced by shifts in market rate, or, in other words, the regional rates. Here the subjects are the five companies among the 15 case study companies that utilize *pāto taimā* (“part timers”), the typical type of non-regular employees in Japan. It should incidentally be noted that in Japan, the term “part-timers” is in some cases used to refer to non-regular employees in general, as opposed to specifically referring to the working hours. Some of those who are referred to as part-timers may therefore work full time. The subjects of the following analysis are employees who are referred to by their companies as part-timers. To avoid confusing

Table 4. Wage systems for non-regular employees (5 case study companies)

	Supermarket H	Supermarket I	Electronics Retail Store M	Drugstore N	Home Improvement Center O
Implementation of a grade system	3 grades	2 grades	4 grades	—	—
Method of promotion	Gradual build-up of evaluation	Written examination and interview	Evaluation of behavior	—	—
Implementation of promotion on the basis of evaluation	Yes	Yes	Yes	Yes	Yes
Method of reflecting evaluation results	Reflected upon promotions and wage increases	Reflected upon wage increases	Reflected upon promotions and wage increases	Reflected upon wage increases	Reflected upon wage increases

Source: JILPT (2022).

the terms, these employees are referred to below as non-regular employees (except in the comments quoted from the survey interviews to the labor unions).

Table 4 summarizes the wage systems applied to non-regular employees for the five companies. As the table shows, non-regular employees also undergo evaluations of their ability, the results of which are reflected upon promotions and wage increases.

All five companies conduct evaluations of ability for non-regular employees and reflect the results upon wage increases. Namely, the five companies implement systems by which non-regular employees in the same job title or with the same number of years of continuous service may receive different amounts of hourly pay in accordance with their ability or performance. For instance, Supermarket H reflects the results of personnel ratings on the determination of non-regular employees' hourly pay. This ensures that among non-regular employees in the same job title and with the same number of years of continuous service differing hourly pay may be applied to reflect ability or performance in accordance with wage revision rates in line with annual evaluation results. Wage revision rates reflecting five levels of evaluation result—A, AB, B, BC, and C—are assigned for each qualification grade. As this indicates, the distinctive features of regular employees' wages have spread to influence the approaches applied to non-regular employees.

(2) Impacts of minimum wage increases on personnel management

As noted in Section I, regional minimum wages are increased on an ongoing basis. The amounts by which they are increased are also higher in comparison with the early 2000s. The regional rates have consequently risen sharply. Such changes in the environment are prompting challenges with regard to the personnel management of non-regular employees.

For instance, Supermarket H, Electronics Retail Store M, and Drugstore N have faced the issue that the portion of wage increase that reflects wages for abilities evaluation results may be drowned out by the increase in regional minimum wages. Some of the non-regular employees with a number of years of continuous service are dissatisfied at the fact that non-regular employees new to the company are able to catch up to a wage level that they achieved by building up appraisal results. Identifying this as an issue, the labor unions of the three companies offered the following comments:

“While the slightly high rate of increase in minimum wages is a pretty good development from our point of view, the key issue is that there may, for instance, be little differences in the wages of a part-timer in their fifth year with the company and those of a first or second year. This has already presented itself as the greatest issue...As the increase [in the regional minimum wage;

addition by the author] in the Tokyo metropolitan area has been 20-yen, again 20-yen, year on year, the problem is that, even if wages are increased based on evaluations, the employees entering the next year will catch up with them.”¹⁴

“With the exponential increase in minimum wages, particularly in the last few years, part-timers who joined the company 10 years ago—and have built up their wages gradually with each performance evaluation—may have only increased their wages by around 10 or 20 yen on average, even if they have been rated higher each year. As the minimum wage has instantaneously exceeded this, there are now a great number of part-timers in the workplace complaining that the wages of those who joined the company 10 years ago are the same as those of new part-timers or barely even 10 yen higher...the portion of wage increases reflecting evaluations has been entirely overwritten.”¹⁵

“Part-timers are extremely uncompromising when it comes to money, more so than regular employees, so when they are directly faced with a subject for comparison, it’s inevitable that union members start to complain: ‘But they have only been at the company for one or two years, while we are seasoned employees with many years of experience—why are their wages rising, while ours [the wages of seasoned employees; addition by the author] are barely increasing?’”¹⁶

As this shows, the subject companies faced a situation in which their ordered structure by which wages were determined according to non-regular employees’ abilities and roles within their company has broken down as a result of rising regional rates. Companies were presented with a challenge coordinating the market rates with their internal wage systems.

Home Improvement Center O (Company O) also faced a different issue. Company O has implemented increases to the base portion of non-regular employees’ wages to correspond with the increase in regional rates. However, a trend developed by which, in order to reduce the burden of costs for wages, stores attempted to utilize personnel ratings to offset the wage increases implemented for non-regular employees. As Company O had a personnel evaluation system that allowed for employees’ wages to be reduced as a result of evaluation results, the stores sought to offset market rate-based wage increases with wage decreases on the grounds that they reflected personnel ratings. Some of the stores began to attempt to address the increase to the base portion of hourly pay by seeking to curb the wages to a level just above minimum wage.¹⁷

The problematic trend addressed above can be seen as a wage management issue that arises where there is an “absolute” level such as regional rates. It could be suggested that it is not an issue in the case of regular employees. It should, however, be noted that there is a company that has not encountered such a problem (Supermarket I). There are also companies that have faced such an issue but taken measures to address it. Below is a summary of the approaches that case study companies have adopted to respond to the issue.

(3) Approaches adopted in response

Table 5 summarizes the approaches adopted by labor and management to address the impact of the increase in minimum wage on personnel management. There are four types of approach. The first is to introduce wages in which there is a clear division between the portion that corresponds to market rates and the portion that reflects job duties and ability. This approach has been implemented by Supermarket H and Supermarket I (Figure 9). It entails reflecting the regional rates upon the basic hourly pay portion and defining a separate, ability-based portion. Making such a division to establish the portion that reflects abilities is a means of ensuring that the company’s internal ranking of job duties and ability is not affected by the shifts in the regional rates. For instance, in the case of wages at Supermarket I, which are largely made up of qualification-based pay, region-based pay, and ability-based pay, adjustments to accommodate regional rates are made to the qualification-based and region-

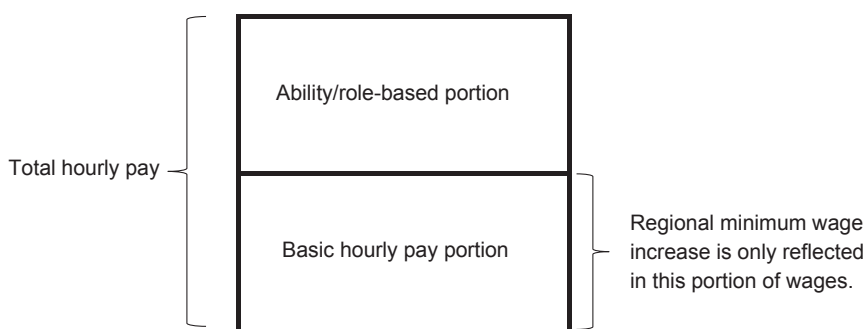
based pay. That is, the sum total of the qualification-based pay and region-based pay is what must exceed the statutory regional minimum wage level, and ability-based pay is not included in this total. As a result, the ability-based pay portion, which should reflect the performance of non-regular employees, is not affected by shifts in the regional rates. Such an approach is adopted by companies as a means of maintaining their internal ordered system for wages against the context of increasing market rates.

The second approach is postponing the timing at which the results of personnel ratings of ability are reflected upon wages, in order to avoid the impact of revision to the statutory regional minimum wage that is implemented in October. This method was implemented by Drugstore N (Figure 10). Drugstore N used to typically implement the increases in the evaluation-based portion of non-regular employees in April, as was the case for regular employees. While there is little issue with regard to regular employees, whose wages are not really connected with the regional rates, in the case of non-regular employees, whose wages are impacted by its rates, the issue had arisen that revision to regional minimum wage and the resulting increase in minimum wage cancelled out the amount of wage increase reflecting ability. Drugstore N’s labor union, which identified this as an issue, requested the employer to change the timing of the evaluation-based portion of wage increase from April to November in order to avoid increase in regional rates having an impact on wage increases to the ability-based portion. However, in the case of this method, it is still possible that the wage increase in the portion reflecting evaluation may be offset by the increase in the statutory regional minimum wage one year later. Even so, it plays an important role in maintaining and boosting motivation among non-regular employees as it ensures that the wage increase is maintained for one year, where it would typically have been gone in six months. The following

Table 5. Approaches by labor and management to address the impact of the minimum wage increase on personnel management

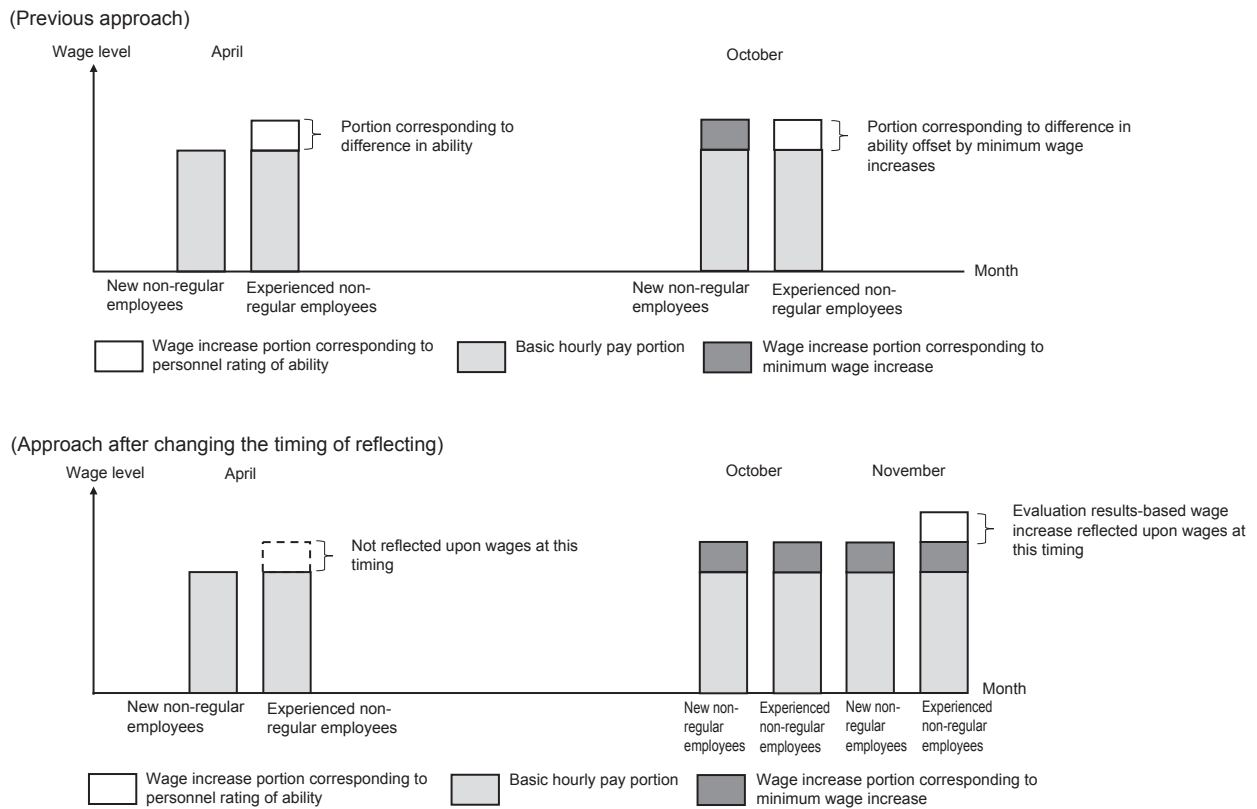
Approach	Relevant case study companies
Management that draws a clear distinction between the portion of wages that corresponds to regional market rates and the portion that reflects ability	Supermarket H, Supermarket I
Adjusting the timing at which the results of personnel ratings of ability are reflected	Drugstore N
Labor union check on the evaluation-based portion of wage increase based on performance	Home Improvement Center O
Approach corresponding to promotion	Electronics Retail Store M

Source: JILPT (2022).



Source: JILPT (2022).

Figure 9. Separating wages: portion corresponding to regional rates and portion that reflects ability (Supermarket H, Supermarket I)



Source: JILPT (2022).

Figure 10. Initiatives to avoid impact of revision to regional minimum wage increase (Drugstore N)

comment from the labor union indicates the importance of maintaining the company’s evaluation-based portion of wages for as long as possible:

“Wage revisions made in April may be engulfed by around five to six months later, and this has now been lengthened to a year. While it is still a game of catch up, in terms of part-timers’ motivation, the evaluation remains alive for one year.”¹⁸

The third approach is for the labor union to check the operation of the evaluation-based pay. This was implemented by Home Improvement Center O. By allowing the labor union to check the results of personnel ratings and confirm any potential issues with the store, it ensures that stores are not using the personnel system contrary to the goals of the system to reduce the burden of costs that arise along with increases in regional rates.

The fourth approach is to respond with the operation of promotions, as opposed to the wage system. This was implemented by Electronics Retail Store M. Facing the issue of the evaluation-based wage increase being overwritten by the shifts in regional rates Electronics Retail Store M sought to expand the potential for talented non-regular employees to secure promotions, by actively entrusting new tasks and roles to the non-regular employees with high evaluation results.

V. Conclusion and discussion

1. Conclusion

In Section III, we identified two questions to address in this paper. The case studies drawn on for analysis have provided insights that lead us to the following conclusions:

Question 1: Given that basic wage increases have been revived, upon what grounds are such wage increases implemented?

Examining the basic wage increase approach in more detail shows that it is being utilized as an incentive to encourage employees to behave in such a way that contributes to improving their company's ability to compete. The grounds for implementing basic wage increases can therefore be described as designing an appropriate incentive for employees, as opposed to seeking to maintain or improve living standards. That is, the objective with which basic wage increases are being implemented has moved away from the aim that it was originally established to pursue. At the same time as such a change in the function of basic wage increases, the approach to annual wage increments is also undergoing change. A shift from wage tables based on the gradual build-up of wage increases to other forms of wage table is causing a reduction in the stable portion of wage increases that has conventionally been an element of wages in Japan. Along with the changes in basic wage increases, annual wage increments are also undergoing change.

Question 2: Given that the rules established by corporate organizations coexist with those of the labor market, surely increases in regional rates create issues for companies in their wage management?

Increase in regional rates has led to a break down in the ordered ranking structure by which wages reflect employees' abilities and roles within their corporate organization. In this sense, increases in regional rates are generating problems for companies in their wage management. The case studies show that within companies, labor and management are engaged in eradicating these problems. Those involved within the organizations are responding to the way in which the market has destabilized their internal structures for wage management by pursuing efforts to restore order.

2. Discussion

The insights obtained from the case studies indicate an increase in the importance of labor-management negotiations regarding wage determination in both the world of regular employees, who fall under Pattern 3 (the corporate organization is barely influenced by the labor market and determines wages according to its own rules) and that of non-regular employees, who fall under Pattern 1 (the corporate organization is significantly influenced by the labor market and essentially determines wages on the basis of the market rate).

In the case of regular employees, while reduction in the stable portion of wage increase that was intrinsic to the wage system is prompting a decline in incentive, wage increases using the basic wage increase approach are utilized as wage hike reflecting an individual employee's performance and ability. That is, decline in the incentive that was formerly part of the wage system itself is being supplemented by wage increases brought about through labor-management negotiations. This is the early stages of development of a new relationship between annual wage increments and basic wage increase. It indicates the growing importance of wages determined by labor-management negotiation as a means of maintaining the function of providing an incentive for employees that wages have in the first place. In the case of non-regular employees, labor and management are also endeavoring to restore the internal wage order that has been shaken by shifts in market rates.

These developments highlight the increasing role of consultation and negotiation between the parties involved

in wage management within corporate organizations. At the same time, with labor unionization rates at around 16%, it would appear that few companies have the conditions that allow for consultation and negotiation within their organizations. It appears to have become even more important to examine the frameworks for labor-management communication within corporate organizations, if it is going to be possible to enable the determination of wages that are desirable for both labor and management. This is an area that needs to see more active debate in the future.

This paper is based on “*Kigyo no chingin kettei ni kansuru kenkyu*” [Research on Companies’ Wage Determination], JILPT Research Report no. 212 (February 2022).

Notes

1. The yen is the currency unit of Japan (US\$1.00=¥136 as of February 27, 2023).
2. This section is based on JILPT (2022), Introduction, Section 2.
3. An alternative approach to the development of inter-company restrictions such as those in the US are collective restrictions by labor-management organizations that transcend the company level. This is Pattern 2 (The corporate organization determines wages in accordance with a labor market controlled by labor-management organizations and other such entities). This pattern applies in Germany and other such continental European countries, and Scandinavian Countries.
4. Nitta (2003) regards the mid-1950s as the period in which the annual wage increment system became established, and argues that its establishment led to the development of the concept of seniority-based wages. Magota (1972) suggests that it was established prior to the Second World War, in the 1920s.
5. Nitta (2003) is one of those researches that consider that the annual wage increments as an institutional foundation for the seniority-based wage curve.
6. Honda (2007) points out the trend toward part-time workers (non-regular workers) becoming the core workforce (*kikanka*).
7. Hirano (2018) points out the changes in the personnel and wage systems of non-regular employees over time.
8. This consisted of the following companies: Automobile Manufacturer A (size of company: 5,000 employees or more), Machinery Manufacturer B (5,000 employees or more), Electronics Manufacturer C (5,000 employees or more), Electronics Manufacturer D (5,000 employees or more), Textile Company E (1,000 employees or more), Electrical Equipment Manufacturer F (1,000 employees or more), Telecommunications Company G (5,000 employees or more), Supermarket H (5,000 employees or more), Supermarket I (5,000 employees or more), Department Store J (1,000 employees or more), Insurance Company K (5,000 employees or more), Financial Services Company L (1,000 employees or more), Electronics Retail Store M (1,000 employees or more), Drugstore N (5,000 employees or more), Home Improvement Center O (1,000 employees or more).
9. Namely, Supermarket H, Supermarket I, Electronics Retail Store M, Drugstore N, and Home Improvement Store O.
10. The specific changes to wage tables or grading system are unknown as the “wage system revision” in the “General Survey on Working Conditions” includes a variety of elements.
11. Translation of an excerpt from the original Japanese transcript of the survey interview (hereafter, “translated excerpt from the interview”) with the labor union of Department Store J (July 8, 2020).
12. Translated excerpt from the interview with the labor union of Electronics Manufacturer C (June 29, 2020).
13. Translated excerpt from the interview with the labor union of Automobile Manufacturer A (August 27, 2018).
14. Translated excerpt from the interview with the labor union of Supermarket H (October 26, 2020).
15. Translated excerpt from the interview with the labor union of Electronics Retail Store M (September 4, 2020).
16. Translated excerpt from the interview with the labor union of Drugstore N (September 9, 2020).
17. For example, the stores would ensure that where an employee received a 20-yen increase to the base portion of their wages, the evaluation-based portion of the employee’s wage would be reduced by 20 yen, so that in practicality, the employee received a wage increase of 0 yen.
18. Translated excerpt from the interview with the labor union of Drugstore N (September 9, 2020).

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Promoting Employment of Older Workers and Adjustment of their Working Conditions at Japanese Firms

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In Japan, the Act on Stabilization of Employment of Elderly Persons has made progress in securing employment opportunities for and improving the work environment of older persons, including continued employment after mandatory retirement. However, there is a strong possibility that firms are making some form of adjustment (e.g., wage, employment status) in exchange for securing employment for older workers. I summarize previous research findings, focusing on the wages and job descriptions of older workers and on the possibility of substituting older workers for younger workers as part of the adjustments made by firms to secure employment for older workers. Then, using microdata from a survey of Japanese firms, I examine the extent of these adjustments. I find that although the wages of those in their early 60s decrease compared to pre-mandatory retirement age wages, wages are adjusted according to changes in job content and workload in continuous employment. I also find that the higher the ratio of employees above 60, the more firms cite their “inability to hire younger workers” as an obstacle to securing employment for those in their early 60s. This suggests that firms are aware of the substitutions between older and younger workers. Moreover, I observe that even when the nature of the work differs from that of the pre-mandatory retirement period, firms have retained older workers to pass on their skills or fill labor shortages in the workplace, considering their physical condition. Meanwhile, it is noted that having workers continue the same work as before mandatory retirement while adjusting the workload could help secure employment opportunities until age 70.

- I. Introduction
- II. Growth of labor demand for older workers
- III. Adjustments by firms to secure older workers' employment
- IV. Adjustments by firms based on microdata
- V. Conclusion: Challenges in securing employment opportunities until the age 70

I. Introduction

Declining fertility rates and aging populations have been observed not only in Japan but also in many other countries around the world. The average number of live births per woman in 2019, as reported by the United Nations (2019), was 1.7 in Europe and North America, 1.8 in East and Southeast Asia, 1.8 in Australia and New Zealand, and 2.0 in Latin America, an across-the-board decrease from 1990. Meanwhile, people aged 65 and older as a percentage of the total population are projected to reach 26.1% in Europe and North America, 23.7% in East and Southeast Asia, 22.9% in Australia and New Zealand, and 19% in Latin America by 2050 (United Nations 2019).

When the percentage of the population accounted for by young people stagnates and the percentage of older people increases, the relative size of the working-age population will inevitably shrink. If the working-age population's share of a country's production activities shrinks and the number of people who are economically dependent on the working-age population increases, per capita GDP is expected to decline and growth to slow, leading to a financial deterioration of the social safety net. To prepare for this situation, many countries are encouraging older people in their 60s to keep working longer by raising the starting age for public pension payments. According to the Organisation for Economic Co-operation and Development, OECD (2019), the standard starting age for pension payments under the current system has been raised by an average of 3.5 years in 20 of the 36 OECD countries. Many previous studies in Europe, the United States, and Japan show that raising the age of eligibility for pension payments has a positive effect on the labor supply of older workers (Ishii and Kurosawa 2009; Blundell, French and Tetlow 2016; Coile 2015; Kondo and Shigeoka 2017; Oshio, Shimizutani and Oishi 2020; Oshio, Usui and Shimizutani 2020).

To raise the age of eligibility for pension payments without lowering the living standards of older people, firms must actively employ older workers. In Europe and the United States, laws prohibiting age discrimination have been enacted, but they have not necessarily led to an increase in elderly employment (Lahey 2010; Sakuraba 2014). Meanwhile, most firms in Japan have a mandatory retirement age. According to the 2019 "Survey on Employment of Elderly People," a nationwide survey of private-sector companies with 50 or more employees (excluding industries of "agriculture and forestry, and fisheries," "mining," and "compound service") conducted by the Japan Institute for Labour Policy and Training (JILPT) (hereafter, "JILPT survey"), 94.7% of responding firms have a mandatory retirement age (JILPT 2020). On the other hand, the Act on Stabilization of Employment of Elderly Persons (ASEEP), (first enacted in 1971 as the Act for Promoting Employment of Middle-aged and Older Persons, Etc., later changed its name to the current one in 1986), has been ensuring employment opportunities and improving the environment for older people such as continued employment after mandatory retirement. Having been amended several times, the act currently obliges firms, i.e., the labor demand side, to secure employment through measures such as continued employment up to age 65 and to make efforts to secure employment opportunities for workers in their late 60s.

Thus, it can be said that the labor market for older people in Japan is characterized by the fact that their employment is promoted through raising the pension eligibility age (supply-side intervention) and the ASEEP revision (demand-side intervention). Kondo (2014) examines the impact of the 2006 ASEEP revision, which made it mandatory to secure employment until age 65, on employment in their early 60s, using survey data from the *Labor Force Survey* (conducted by the Ministry of Internal Affairs and Communications). She shows that the requirement to secure employment for older people increased both the labor force participation rate and the employment rate, that the change in the employment rate was larger than that in the labor force participation rate, and that most of the increase in the employment rate was due to the increase in the number of people continuously employed by the same firms. Furthermore, the number of workers who changed jobs did not differ significantly before and after the ASEEP revision, suggesting that the revision may not have strongly squeezed workers in their sixties who changed jobs out of the labor market. These results can be interpreted as an increase in the labor supply induced by an increase in the employment rate due to the expansion of employment opportunities.

However, even before the 2006 ASEEP revision, employment of persons aged 60 or older was not prohibited. As Kondo (2014) notes, if the employment that increased as a result of the ASEEP revision was accounted for by people whom the firms would have preferred not to employ if not required by the revision, it is highly possible that the firms made some form of adjustment in place of promoting the employment of older people. For example, possible channels of adjustment include changes in wages and terms of employment for older people, substitutions between older workers and other age groups, and complementarity between older people and capital. To what extent do each of these adjustments take place in firms? And to what degree do these adjustments contribute to the promotion of employment among the elderly?

Among adjustments at Japanese firms to secure employment for older people, I focus on changes in the wage and terms of employment of older people and employment substitutions between older people and other age groups. Then, while outlining relationships between these adjustments and the employment of older people based on previous studies, I discuss the extent to which the above adjustments have been made, using microdata from the 2015 survey of the above-mentioned JILPT survey. The current ASEEP, enacted in April 2021, requires firms to make efforts to secure employment opportunities up to age 70. I examine the possibility of securing employment opportunities up to 70 through firms' adjustments of working conditions as described above.

In the following Part II, I consider the rationality of the post-retirement continued employment systems adopted by many Japanese companies from an economic perspective. Part III summarizes the findings of previous studies on firms' adjustments to secure older employment, including wages and terms of employment, and the possibility of substituting older workers for those of other age groups, especially younger workers. In Part IV, I examine adjustments of working conditions at Japanese companies using microdata. Part V discusses the feasibility of securing employment opportunities for workers up to age 70 and concludes.

II. Growth of labor demand for older workers

The current ASEEP mandates an "obligation to make an effort to take measures to secure employment opportunities up to age 70," in addition to the existing "prohibition of mandatory retirement ages under 60" and "obligation to take measures to ensure employment up to age 65." The measures to ensure employment up to age 65 are: i) raising the mandatory retirement age to 65, ii) abolishing the mandatory retirement age, or iii) introducing a continuous employment system up to age 65, such as a rehiring system or a system for extending working periods without retirement. Companies are required to take one of these steps. Most firms cope by iii) introducing a continuous employment system after mandatory retirement. According to the report on the employment conditions of elderly persons in 2020 (Ministry of Health, Labour and Welfare, MHLW 2020), 2.7% of firms with 31 or more employees have abolished the mandatory retirement age, and 20.9% have raised it, while 76.4% introduced a continuous employment system.

With regard to reasons why measures i) and ii) above are difficult to introduce in an economic context, the delayed-compensation contract advanced by Lazear (1979), who examined the question "Why is there mandatory retirement?" can be useful. This model assumes that a worker's optimal retirement age (T^*) is the point in time when the worker's productivity (value of marginal product, VMP) is equal to their reservation wage. In addition, it assumes that the firms cannot constantly monitor the workers but can only make random observations of the workers' performance and dismiss the workers based on this information. The model then shows that with these assumptions, paying workers less than their VMP with fewer years on the job and more than their VMP in later years can give workers incentives to stay longer. However, because the discrepancy between wages and productivity increases with years on the job, workers do not voluntarily retire at retirement age (T^*). Therefore, the employment contract must be terminated when workers reach this age. This is the reason for setting a mandatory retirement age.

Ohashi (1990) extends the assumptions of the Lazear model by formulating a modification to discuss the function of the retirement system and the determination of retirement age within the firms' internal labor market

framework established on the premise of a long-term employment relationship. Specifically, He considers a profit maximization problem in which firms determine retirement age and age-earning profile in a model that incorporates an internal promotion system. In this model, firms have two categories of jobs (productive and managerial). Wages for productive jobs are fixed, while wages for managerial jobs are effort-based pay. This model assumes that the level of effort in productive jobs affects the timing of promotion to managerial jobs, which is the internal promotion component. This model as well shows that wages after promotion must exceed the value of productivity for a mandatory retirement age to exist. It also points out that raising the retirement age may delay workers' promotion. Meanwhile, Chuma and Higuchi (1995) use a two-term model based on human capital theory to analyze changes in the age-earning profiles of regular employees and non-regular employees and their ratios when hired at a firm. The model assumes that the human capital level that firms require for their regular employees varies depending on the economic environment and has an impact on their age-earning profiles. The model also shows that wages may exceed the value of productivity during workers' prime time of their careers due to changes in the economic environment and other factors.

Previous studies examining associations between the value of productivity and age-earning profiles have shown that wages are lower relative to the value of productivity during the initial years and higher in the later years (Kodama and Kotaki 2010). For example, Kawaguchi et al. (2007), using a dataset linking the Census of Manufacture (conducted by the Ministry of Economy, Trade and Industry, METI) and the Basic Survey on Wage Structure (BSWS) (conducted by the MHLW) from 1993 to 2003, compares worker productivity and wages at manufacturing industries in Japan. They show that younger workers earn wages below their value of productivity and that middle-aged and older workers earn wages above their value of productivity. These findings support the rationale for the existence of a mandatory retirement system.

Eliminating or raising the mandatory retirement age would cause losses to firms under an upward-sloping age-earning profile in which the wages of workers with more years on the job exceed their value of productivity. To avoid "overpayment," firms need to revise their entire upward-sloping age-earning profile. Some studies using Japanese microdata confirm that raising the retirement age moderates the slope of the age-earning profile and that wages tend to decline at firms that have raised the retirement age, even when years on the job are the same (among recent studies, Kimura, Kurachi and Sugo 2019). However, the revision of age-earning profiles is expected to involve significant adjustment costs involving negotiations between labor and management. On the other hand, a continuous employment system is a completely different measure from abolishing or raising the retirement age. Raising the retirement age means continuing employment in the same form as before, whereas continuous employment means once having workers retire at the retirement age and then re-contracting them. In the latter case, if firms re-contract with lower pay at a level commensurate with the value of productivity, adjustment of the entire age-earning profile can be avoided. If so, wages after the re-contract would also be lower under the upward-sloping age-earning profile.

In terms of the utilization of workers' human capital, it may be efficient for older people to continue working at the same firms through a rehiring system. For example, suppose human capital accumulated up to retirement age is specific to firms. In that case, the human capital will be utilized more fully with continuous employment compared to employment at other firms after mandatory retirement. Yashiro (2009) points out that when firms continue to employ people who have reached mandatory retirement age, assigning them to the same jobs they had before retirement makes sense. In addition, when firms newly hire older people, the elderly workers have to acquire a large stock of human capital to do the new job, and thus the fixed costs of hiring and training are high (Hutchens 1986). Many of those who have reached mandatory retirement age wish to remain employed at the same firms. According to MHLW (2020), 85.5% of those who reached the mandatory retirement age at firms with mandatory retirement at age 60 were continuously employed. This suggests that continuing to work at the same firms may provide workers with better compensation than moving to other firms after retirement.¹

Nonetheless, suppose a firm seeks to lower wages after mandatory retirement while having employees do the same work as they did before retirement. In that case, it will result in a situation where "work remains the same

but wages decline,” violating the principle of “equal pay for equal work.” There have been cases where significant wage reductions have arisen under continuous employment systems due to the conclusion of re-contracts, even though the nature of the work after mandatory retirement hardly changed from before mandatory retirement. Such cases may be regarded as unreasonable differences in working conditions and considered a violation of Article 8 of the Part-Time and Fixed-Term Employment Act.² However, the ASEEP does not contain clear provisions regarding wages and working hours for continuous employment, and in principle, the determination of working conditions offered by firms is left to their reasonable discretion.³

III. Adjustments by firms to secure older workers’ employment

Being required to secure employment for older workers, what levels of wages do firms set for them? And, do the content and amount of work change after mandatory retirement? Regarding the former question, Kondo (2016) examined the effect of the 2006 ASEEP revision, which mandated continued employment until age 65, on wages (annual earnings excluding bonuses) of older people. Using microdata from the BSWS, she showed that the wages of older people who reached age 60 after the revision declined significantly. However, she also points out that this wage decrease after age 60 includes changes due to an increase in the number of older people who continue to work after mandatory retirement, in addition to changes due to an actual wage decrease for nearly equally productive workers. Before the revision, older people who continued to work after retirement were considered relatively productive workers who met the selection criteria set by firms. According to JILPT (2020), the average wage at age 61, when the wage just before age 60 (the lower limit of mandatory retirement age) is 100, was 89.6 for those with the highest level wages, 78.7 for those with the average level wages, and 70.8 for those with the lowest level wages. While it should be noted that the calculation of these averages does not take into account the inclusion of firms with mandatory retirement ages of 61 or older, or firm characteristics such as firm size or industry, it is evident that wages decline after age 60.⁴

Are there any changes in job content and workload after age 60 compared to just before age 60? Kajitani (2011) calculated the percentage of male workers aged 60 to 64 whose current occupation is the same as their occupation at age 55, using data from the “Survey on Employment Conditions of Elderly Persons” conducted by the MHLW in 2004. As shown in Table 1, for example, the percentage of those who held managerial jobs at age 55 and still held managerial jobs at the time of the survey was relatively low at 54.7% (Panel A), while on the other hand, among those who currently held managerial jobs, the percentage of those who also held managerial jobs at age 55 was high at 84.9% (Panel B). These results suggest that in the case of managerial jobs, only a limited number of people can remain in the same jobs after age 60. On the other hand, a high percentage (74.2%) of those who were working in security at age 55 are still working in security (Panel A), while a relatively low percentage (20.8%) of those currently working in security were also working in security at age 55 (Panel B). This

Table 1. Percentage of men aged 60–64 who held the same jobs as at age 55

A: Based on the occupation at age 55								
Occupation at age 55	Professional and technical occupation	Managerial job	Clerical	Sales	Services	Security	Transport and communications	Manufacturing
	71.4	54.7	59.6	65.1	73.6	74.2	74.6	79.5
B: Based on the current occupation								
Current occupation	Professional and technical occupation	Managerial job	Clerical	Sales	Services	Security	Transport and communications	Manufacturing
	77.0	84.9	42.3	77.0	47.6	20.8	84.5	78.7

Source: Prepared on the basis of individual questionnaire (Table 18) of the “Survey on Employment of Elderly People” (MHLW).
 Note: Excerpted from Kajitani (2011) with partial modification.

implies that many of those currently working in security were previously engaged in other occupations. However, the results also include cases where people were reemployed at other firms after mandatory retirement, so it is not possible to identify whether they are in a continuous employment system.

Kume et al. (2021) analyzed the actual status of the continuous employment system using a sample of those aged 61 to 65 who retired from large firms with 300 employees or more and are currently employed, derived from the “2017 Survey on Relocation, Transfer, and Retirement” conducted by the Research Institute of Economy, Trade and Industry. Comparing those who were continuously employed with those who were not, Kume et al. (2021) point out that high percentages of those who “hold the same job as before mandatory retirement” and those who “hold the same job but scope of duties or workload have been reduced” are continuously employed. They also show that a much smaller percentage of those who “hold a job unrelated to their job before mandatory retirement” are continuously employed. These indicate that in the case of continuous employment, it is highly likely that adjustments such as a reduced workload have been made by firms, albeit with assigning people to the same job as before mandatory retirement.

Policies that boost employment opportunities for older people are desirable insofar as they are responsive to demographic changes but not desirable if they reduce employment opportunities for other age groups more than necessary (Mitani 2001). For example, as Ohta (2012) notes, there are several possible pathways for the effect of expanded older employment on the recruitment of younger people. One is that of similarity between the jobs of older and younger workers. Suppose that the job of older workers substitutes for that of younger workers. In that case, for profit-maximizing firms, mandating continued employment for the elderly decreases recruitment of young people. Conversely, if the two jobs are complementary, the same mandate will increase the recruitment of young people. Also, there could be a pathway that arises from employing elderly workers longer due to mandated continued employment. If there are more existing workers, then the number of new positions available will be smaller, i.e., the continuous employment requirement will cause firms to refrain from hiring younger workers. This occurs irrespective of job-to-job substitution. Does the policy-enforced increase in employment for the elderly reduce employment opportunities for other age groups, especially the young?

According to Böheim and Nice (2019), who primarily surveyed European studies, a positive association is observed between the employment rates of older people and young people, and there is limited evidence that expanding employment of older people reduces the employment of young workers. However, when analyzing the potential for substitution between older and younger workers, there are difficulties related to endogeneity, such as omitted variables and simultaneity. Ohta (2012) and Kondo (2016) focus on the mandate for continued employment up to age 65 under the 2006 ASEEP revision so as to analyze the impact of elderly employment on younger employment in firms while considering the endogeneity. Of these, Ohta (2012), using data by industry from the MHLW’s Survey on Employment Trends (SET) from 2004 to 2008, examined whether the percentage of workers aged 60 over those aged 55 or older (the aging index) has an impact on the ratio of new hires to young workers (the youth employment rate) focusing on the 2006 ASEEP revision. He then showed that most coefficients of the aging index were statistically insignificant before 2005, whereas the impact of the aging index on the percentage of female part-time workers hired after 2006 was significantly negative. This result suggests that the mandate for continued employment may have discouraged the new hiring of younger workers. On the other hand, Kondo (2016) constructed panel data for large establishments using microdata from the SET and examined the impact of the increase in older employment due to the 2006 ASEEP revision on new hiring of other age groups. While indicating that the obligation of continued employment may have discouraged the part-time employment of middle-aged and older females, Kondo (2016) also reveals an increase in the full-time employment of younger workers. She points out that there is no clear substitution between elderly employment and hiring younger workers.⁵

Older people who have worked until the mandatory retirement age have acquired wide-ranging knowledge and experience, both general and firm-specific. If this knowledge and experience are shared with other workers within firms so as to train them, it can be interpreted as a complementary relationship between older workers and

others. Göbel and Zwick (2013) used German establishment data for the 1997–2005 period to explore the relationship between human resource policies for older workers, such as shorter working hours and vocational training, and the productivity of older workers. They showed that at firms that employ work teams with a mix of different age groups, the productivity of both older and younger workers is relatively high. This suggests a positive spillover effect between the productivity of different age cohorts working together in groups. Meanwhile, Kawata and Owan (2022) used personnel records from Japanese manufacturers to examine whether there is a potential peer effect of older workers on the job satisfaction of their colleagues. If older workers are able to share their extensive knowledge and experience with other workers, then older people can be seen as having a substantial positive peer effect. However, given the possibility that older people's skills are obsolete, older workers may also exhibit negative peer effects. Knowing which of these effects is larger can provide hints for improving workplace productivity by efficiently placing older people within firms. The results of the analysis show that peer effects on the job satisfaction of coworkers differ depending on the ability of older workers and the age of the coworkers, such as higher job satisfaction of coworkers when they work with more competent older people, and higher job satisfaction of coworkers in their 50s when they work with older people (who are close to their own age). Also, Kawata and Owan (2022) analyzed the potential peer effects of older workers on the frequency of coworkers' skill development (training). They found that working with older people led to more training for colleagues in the 30–40 age group. These findings suggest that firms can effectively facilitate sharing of older people's knowledge and experience in the workplace to cultivate younger workers.

IV. Adjustments by firms based on microdata

The previous section outlined findings from previous studies on changes in wages and job duties of older workers. It was observed or suggested that in the Japanese labor market for older workers, wages decrease at age 60, which is the minimum mandatory retirement age; adjustments are made before and after mandatory retirement, such as changes in occupation or reduction of workload while holding the same job as before mandatory retirement; there is no clear substitution between employment of older people and that of younger people; and firms tend to facilitate the passing down of older workers' knowledge and experience within the workplace. In this section, these points are verified using microdata.

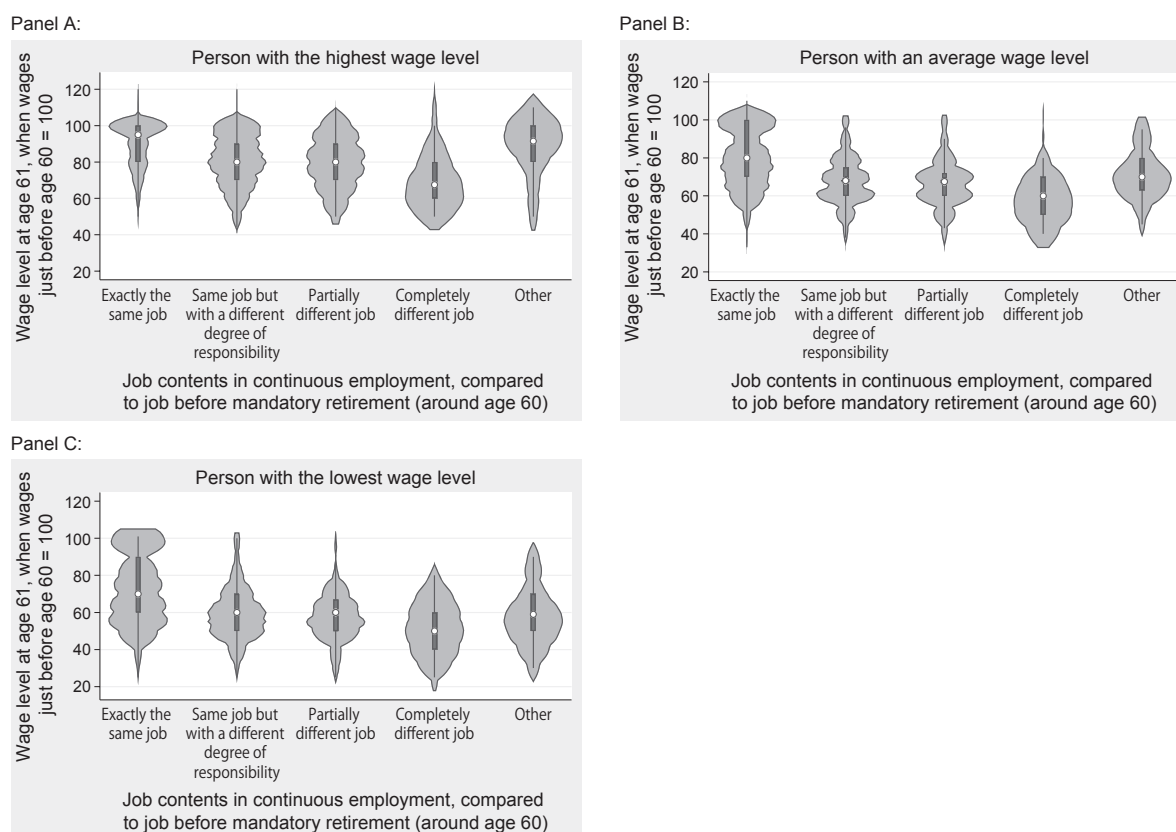
The microdata used in this section is from the 2015 JILPT survey conducted in July 2015 (JILPT 2016). The survey was administered to 20,000 randomly selected private companies with 50 or more employees (excluding industries of "agriculture and forestry, and fisheries," "mining," and "compound service") nationwide, of which 6,187 responded. The breakdown of responding companies by industry sector shows that 28.4% were in manufacturing, 9.9% in transport, 18.4% in wholesale and retail trade, 24.5% in services, and 15.7% in other industries. By firm size, 6.9% of companies had 1–49 employees, 39.2% had 50–99 employees, 35.7% had 100–299 employees, 11.2% had 300–999 employees, and 3.6% had more than 1,000 employees.⁶

The following analysis focuses on firms with a mandatory retirement system to focus on continuous employment after mandatory retirement. The JILPT survey asked firms about the working conditions of workers in continuous employment (i.e., having retired and then been rehired or extending their working period without a retirement) in their early 60s, wages and evaluation systems for workers in their early 60s, and the employment status of people aged 65 and above. Specifically, firms were asked about the following issues: wage levels of workers in their early 60s, wage levels at age 61 compared to just before age 60, the job content of those in continuous employment, points that the firms consider when determining wages for continuously employed workers in their early 60s, considerations when assigning older people to workplaces, issues in securing employment for those in their early 60s, and status of securing employment from age 65 onward. Using these responses, I examine changes in the wage level, work content, and workload of older workers. Restricting the sample to firms for which all information is available for all these items results in a sample size of 2,442.⁷ The definitions and descriptive statistics of the variables are summarized in Appended Table 1.

1. Changes in wages and job contents of older workers

I first examine changes in wages and job descriptions of older workers. Figure 1 shows the distribution of wages at age 61 by job type in continuous employment, where the wage just before age 60 is set to 100. Looking at the cases with the highest level of wages at age 61 (Panel A), in the largest number of cases, wages for those doing “exactly the same job” are the same as wages just before age 60. By contrast, regarding wages for those doing “the same job but with different responsibilities” or “partially different job,” approximately 20 percentage points down from the wage level just before age 60 was most often observed. The wage levels for those doing “completely different jobs” were even lower. These trends are the same when wages at age 61 are at the average level (Panel B) or at the lowest level (Panel C), but for both, the shape of the wage distribution is more downwardly skewed than in the case of the highest wage level (Panel A). In particular, for those doing “exactly the same job,” the shape of the wage distribution is bimodal, with a large split between cases where wages are the same level as those just before age 60 and cases where wages decrease.

However, wages of those in continuous employment can vary depending on the industry, the firm size, and wage determination criteria within the firm, as well as on changes in job content after retirement. Table 2 summarizes the associations between wages in continuous employment and differences in job content before and after mandatory retirement after controlling for these factors. I regress several indicators of wages in continuous employment on a job description, wage determination criteria, and firm characteristics. Columns (1) and (2) of the table show the estimation results with “the average annual income (wage) in their early 60s” as the dependent



Source: Prepared by the author on the basis of the “Survey on Employment of Elderly People” (JILPT).

Notes: The figure above consists of box plots and the distribution of estimated kernel densities, where the circles and boxes indicate the median and quartile ranges, respectively, of the wage level at age 61.

Figure 1. Distribution of wage level at age 61 by job type in continuous employment

variable. The difference between the dependent variables in columns (1) and (2) is whether or not annual income includes corporate pension and public benefits. Column (1) uses the average annual income of those in their early 60s *including* corporate pensions and public benefits, while column (2) uses the average annual income *excluding* corporate pensions and benefits. Some studies point out that the determination of wages for workers in their early 60s is affected by the Old-age Pension for Active Employees (OPAE) and the Employment Continuation Benefits for Older People (ECBOP) (e.g., Kondo 2017). Comparing the results in columns (1) and

Table 2. Associations between wage level and job contents in continuous employment (OLS)

	(1)	(2)	(3)	(4)	(5)
	Average annual income of workers in their early 60s	Average wages of workers in their early 60s	(when wages just before age 60 = 100)		
			Wages at age 61 (highest level)	Wages at age 61 (average level)	Wages at age 61 (lowest level)
Job content in continuous employment					
Same job as before mandatory retirement but with a different degree of responsibility	-8.025* (4.824)	-20.194*** (4.978)	-7.166*** (0.603)	-5.458*** (0.590)	-7.642*** (0.716)
Partially different job	-12.616 (7.839)	-26.459*** (7.890)	-8.739*** (0.960)	-6.925*** (0.985)	-10.206*** (1.127)
Completely different job	-41.360** (18.831)	-47.811** (19.720)	-13.438*** (3.621)	-12.719*** (3.983)	-14.196*** (3.379)
Other	21.583 (33.094)	25.535 (35.120)	-3.199 (3.025)	1.382 (4.029)	-8.252** (3.885)
Considerations when determining wages for workers in their early 60s in continuous employment					
Status of other companies in the industry	-8.054 (5.470)	-12.973** (5.320)	-2.736*** (0.724)	-2.261*** (0.747)	-3.486*** (0.850)
Market wages and standards	6.846 (5.656)	9.560* (5.603)	2.443*** (0.687)	3.072*** (0.666)	2.259*** (0.810)
Wage level at age 60	18.672*** (4.293)	19.783*** (4.332)	0.395 (0.544)	0.606 (0.545)	0.125 (0.644)
Starting wage level	-18.479** (8.046)	-16.956** (8.566)	-1.425 (1.140)	-1.142 (1.117)	-1.491 (1.365)
Minimum wage	-43.337*** (5.725)	-42.274*** (5.686)	-0.633 (0.786)	-0.328 (0.827)	-1.209 (0.941)
Knowledge, skill, and expertise	12.163*** (4.227)	12.722*** (4.289)	1.751*** (0.529)	3.944*** (0.546)	0.435 (0.624)
Retirement allowances entitlement status	15.265 (10.537)	18.509* (10.022)	0.193 (1.335)	0.945 (1.440)	-1.568 (1.736)
Receipt of the OPAE	8.250 (6.214)	-14.594** (6.353)	-0.668 (0.772)	0.029 (0.834)	-1.492* (0.879)
Receipt of the ECBOP	-10.560* (5.392)	-26.938*** (5.380)	-4.212*** (0.674)	-2.703*** (0.756)	-3.801*** (0.753)
Sample size	2,442	2,442	2,442	2,442	2,442
Adjusted R ²	0.10	0.14	0.32	0.22	0.29
F-test H ₀ : Coefficients of all variables except the constant are zero	10.58***	15.91***	49.88***	32.45***	37.63***

Notes: 1. Standard errors in parentheses are adjusted for heterogeneity.

2. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

3. Coefficients and constant terms for variables related to firm characteristics in the estimated model are omitted.

(2), I find that the average annual income *excluding* corporate pensions and public benefits is significantly lower for firms that take into account whether employees are receiving these pensions and benefits when determining wages for continuing employees in their early 60s. As for “the average wage in their early 60s” (column (2)), the coefficients of “receipt of the OPAE” and “receipt of the ECBOP” are significantly negative. By contrast, regarding “the average annual income in their early 60s” (column (1)), the coefficient of “receipt of the OPAE” is insignificant, and the magnitude of the coefficient of “receipt of the ECBOP” is smaller than that in column (2). This is consistent with the point that wage levels of workers in their early 60s are determined by taking into account the OPAE and the ECBOP.

After controlling for these wage determination criteria within firms, I turn our attention to the results in column (2). The coefficients for “the same job but with different responsibilities,” “partially different job,” and “completely different job” are all negative and statistically significant. Suppose that the magnitude of change in job contents is in the order of “the same job but with different responsibilities,” “partially different job,” and “completely different job” with “the same job as before mandatory retirement” as the baseline. In this case, I can see that the larger the magnitude of the change in job content, the lower the wages in continuous employment. These results are similar to those when I use “the change in wages before and after mandatory retirement” as the dependent variable. Columns (3) through (5) show the results when the wage at age 61 is used as the dependent variable, with the wage just before age 60 set at 100. The estimation results are statistically significant for the highest, average, and lowest wages at age 61, indicating that the larger the change in job content, the lower the wage at age 61. These findings imply that wages are adjusted in response to changes in the work content and workload of those in continuous employment.

2. Possibility of substitution of employment of older people for that of young people

The JILPT survey asked about several challenges in securing the employment of those in their early 60s. One of the challenges is that 25% of the responding companies “cannot recruit younger workers, resulting in an

Table 3. Potential for substitution of older workers for younger workers

	(1)
	Unable to hire younger workers due to the need to secure employment of workers in their early 60s
	Marginal effect
Percentage of employees aged 60 or older	0.141* (0.080)
Job contents in continuous employment	
Same job as before mandatory retirement but with a different degree of responsibility	0.077*** (0.020)
Partially different job	0.049 (0.035)
Completely different job	-0.102 (0.091)
Other	0.084 (0.129)
Sample size	2,442
Adjusted McFadden's index	0.01
Wald test H_0 : Coefficients of all variables except the constant are zero	55.07***

Notes: 1. Standard errors in parentheses are adjusted for heterogeneity.

2. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

3. The marginal effect of a dummy variable indicates the amount of change when the variable goes from 0 to 1.

4. Coefficients and constant terms for variables related to firm characteristics in the estimated model are omitted.

uneven age structure.” Based on this question, I examine the possibility that continued employment may result in fewer young people being hired at firms with many older workers. If the firms cite “inability to hire younger workers” as a challenge accompanying the rise in the number of workers in their early 60s who are eligible for continuous employment, I can interpret this as a signal that employment substitution is occurring. Therefore, I have regressed the dummy variable for whether the respondent answered that they are “unable to hire younger workers” on the percentage of employees aged 60 or older, the job descriptions of those in continuous employment, and firm characteristics. Note that in previous studies on the potential for substitution of older people for young people, it has been common to use the number (percentage) of young workers and the number (percentage) of young hires as dependent variables, which differs from those used in this study. However, the fact that firms cite “inability to hire younger workers” as a challenge related to securing employment of those in their early 60s reflects that the firms are aware of the potential for the substitution of older workers for younger ones.

As shown in Table 3, the fact that a higher ratio of employees aged 60 or older is significantly associated with a higher probability of responding “inability to hire younger workers” can be confirmed. In addition, in terms of the job content of those in continuous employment, the probability of responding “inability to hire younger workers” significantly increases when the job is “the same job but with different degree of responsibility” compared to when the job is “the same job as before mandatory retirement.” This may reflect the fact that the jobs of older workers with reduced responsibilities are similar to those of younger workers.

3. Considerations when assigning older workers

If there are changes in job content and workload compared to before mandatory retirement, one point of interest is how firms consider when assigning workers in continuous employment. For example, as described in the previous section, firms may adjust the working style of people in continuous employment, taking into account the transfer of their knowledge and experience in the workplace. The JILPT survey asked companies what they take into consideration when assigning rehired older employees. The responses were: “consideration for individual’s wishes” (61%), “continuation of work to which the individual is accustomed” (83%), “work that is less physically demanding” (24%), and “smooth transfer of skills and know-how” (36%) (see Appended Table 1). What is the association between the presence or absence of these considerations and changes in the work content and workload of those in continuous employment?

Table 4 summarizes the associations between the job descriptions of those in continuous employment and the considerations in assigning older workers. I regress dummy variables representing the presence or absence of consideration of each item in columns (1) through (8) on the job description and firm characteristics. Since the presence or absence of consideration is a binary variable, the table shows the estimated results of a linear probability model. In column (9), I use a dummy variable with a value of 1 when the respondent answered “no particular consideration,” and a value of 0 otherwise as the dependent variable. Among the results shown in the table, the results in columns (2), (3), (5), (6), and (9) are of particular interest. In column (2), I can observe that the probability of “continued placement in a job to which the worker is accustomed” significantly increases when the job is “the same job but with different degree of responsibility,” as compared to “the same job as before mandatory retirement,” while the probability of “continued placement in a job to which the worker is accustomed” is significantly lower when the job is “partially different” or “completely different.” These results may reflect that older people are more accustomed to the same jobs as before mandatory retirement than to different jobs from before mandatory retirement.

On the other hand, column (3) shows that the probability of “assignment to jobs that impose less physical strain” increases as the variables move from “the same job but with different degree of responsibility,” to “partially different job,” to “completely different job,” in that order, with “the same job as before mandatory retirement” as the baseline. Column (5) similarly shows that the probability of “placement in a department with a shortage of labor” increases in the same order. In column (6), the probability of “assignment that ensures smooth transfer of skills and expertise” significantly increases in the case of “the same job but with different

Table 4. Associations between the job contents in continuous employment and the considerations in assigning jobs (linear probability model)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	Consideration of individual's wishes	Continuation of work to which the individual is accustomed	Work that is less physically demanding	Improvement of equipment and work environment	Assignment to departments with labor shortages	Passing on skills and expertise	Assignment of employees so that they feel comfortable with each other	Raising awareness of workers with management experience	No consideration
Job contents in continuous employment									
Same job as before mandatory retirement but with a different degree of responsibility	0.068*** (0.022)	0.053*** (0.016)	0.131*** (0.018)	0.013** (0.006)	0.017* (0.010)	0.160*** (0.022)	0.068*** (0.013)	0.036*** (0.010)	-0.045*** (0.009)
Partially different job	0.049 (0.037)	-0.073** (0.032)	0.242*** (0.034)	0.019 (0.012)	0.086*** (0.023)	0.192*** (0.036)	0.057*** (0.022)	0.012 (0.014)	-0.043*** (0.012)
Completely different job	0.081 (0.114)	-0.478*** (0.113)	0.425*** (0.118)	-0.005 (0.007)	0.160* (0.095)	-0.109 (0.083)	0.242** (0.106)	0.034 (0.054)	-0.058*** (0.011)
Other	0.035 (0.124)	-0.044 (0.112)	0.165 (0.135)	0.060 (0.069)	-0.047*** (0.016)	-0.029 (0.103)	0.088 (0.094)	-0.021*** (0.007)	-0.053*** (0.009)
Sample size	2,442	2,442	2,442	2,442	2,442	2,442	2,442	2,442	2,442
Adjusted R ²	0.02	0.05	0.06	0.02	0.03	0.07	0.01	0.01	0.04
F-test H ₀ : Coefficients of all variables except the constant are zero	4.40***	5.62***	9.53***	2.08***	3.91***	12.90***	2.52***	3.76***	4.23***

Notes: 1. Standard errors in parentheses are adjusted for heterogeneity.
 2. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively.
 3. Coefficients and constant terms for variables related to firm characteristics in the estimated model are omitted.

degree of responsibility” and “partially different job,” compared to “the same job as before mandatory retirement.” Conversely, the results in column (9) show that the probability of “no consideration” significantly decreases in all cases of “the same job but with different degree of responsibility,” “partially different job,” and “completely different job,” compared to the case of “the same job as before mandatory retirement.” Regarding the placement of older workers in continuous employment, these findings suggest that at firms with weaker restrictions to the effect that work be the same as before mandatory retirement, the firms efficiently used the older workforce by passing on skills and responding to human resource shortages while considering the decline in their physical ability.⁸

V. Conclusion: Challenges in securing employment opportunities until age 70

This study summarized the findings of previous studies on adjustments by firms in securing employment for older people, focusing on their wages and job descriptions and the potential for substitution of their employment for that of younger people. Then, using microdata from a questionnaire survey conducted on companies, I examined the extent to which these adjustments were made. The results showed that wages in the early 60s age group decreased compared to pre-retirement age workers but that wages were adjusted in response to changes in the work content and the degree of the burden imposed by continuous employment. On average, wage levels are relatively high for older people engaged in the same job as before mandatory retirement, and wages drop when the degree of responsibility or workload changes within the same job. If the job is completely different from before mandatory retirement, wages decrease further. If doing the same work as before mandatory retirement, older people can use the skills they have accumulated up to retirement as before, and firms can offer wages

commensurate with those skills. On the other hand, if not all of the accumulated skills are utilized due to changes in the work content and workload, then firms will not offer wages commensurate with those skills. In this way, the wage adjustment mechanism shown in the estimation results can be interpreted as the result of rational behavior by the firms.

At firms with higher percentages of employees aged 60 or older, and in cases of continuous employment where the work contents remain the same as before mandatory retirement but the degree of responsibility changes, “inability to recruit younger workers” was cited as a challenge related to securing employment for those in their early 60s. This suggests that firms are aware of the potential for the substitution of older workers for younger ones. On the other hand, even in cases where the job duties of those in continuous employment differ from those prior to mandatory retirement, older workers are assigned to positions to pass on the skills and expertise they possess and to compensate for staff shortages in the workplace, while taking their physical condition into account.

In April 2021, the ASEEP introduced measures that firms are obliged to make an effort to implement, to secure employment opportunities until age 70. These measures include “raising the retirement age to 70,” “abolishing the mandatory retirement age,” “introducing a system of continuous employment until age 70,” and “measures to support business startups, etc.,” such as programs to maintain outsourcing contracts until age 70 continuously. Finally, among the several adjustments made by firms to cope with mandatory employment until age 65, I conclude by examining whether the changes in the work content and workload of those in continuous employment have also achieved the securing of employment opportunities until age 70.

The JILPT survey inquired about the possibility of working after age 65. According to the survey, 28.8% of responding companies said that people “cannot work after age 65,” 61.7% that they “can work after age 65 if they wish to do so and meet certain criteria,” and 9.5% that “all who wish can work after age 65.” These indicate that continued employment after age 65 with certain criteria is the currently prevailing model. Therefore, I examine the association between changes in the work content and workload of those in continuous employment and the possibility of employment after age 65. As shown in Appended Table 2, the probability of “cannot work after age 65” increases as the variables shift from “the same job” to “the same job but with different degree of responsibility,” “partially different job,” and “completely different job,” in that order, with “the same job as before mandatory retirement” as the baseline. Conversely, the probability that all applicants can work after age 65 declines when they are assigned “the same job but with different degree of responsibility” or “partially different job,” compared to when they are assigned “the same job as before mandatory retirement.” These results indicate that the stronger the “same job” constraint on the placement of older workers in continuous employment, the higher the probability of their working in their late 60s. Of course, to secure employment for older people, it is necessary to take the diminishing physical capabilities of workers as they age into account. In this sense, it can be said that allowing workers to continue to do the same work as before mandatory retirement as much as possible with adjusting workload leads to securing employment opportunities up to age 70.

Appended Table 1. Definition of variables and descriptive statistics

Variable	Definition	Mean	Standard deviation	Minimum	Maximum
Wage level of workers in their early 60s					
Average annual income of workers in their early 60s (in 10 thousand yen)	For Q8 (1) [Average annual income], values exceeding the “mean \pm 2 \times standard deviation” are considered outliers and excluded from the sample.	362.46	107.78	73	770
Average wage of workers in their early 60s (in 10 thousand yen)	[Wages and bonuses] of [average annual income of workers in their early 60s] (Q8(2), (i)).	322.77	112.33	50	750

Wage level compared to just before age 60					
Wages at age 61 (highest level)	For Q8 (3) [Wages at age 61 (highest level) when the value just before age 60 is 100], values exceeding the "mean \pm 2 \times standard deviation" are considered outliers and excluded from the sample.	84.16	14.60	44	120
Wages at age 61 (average level)	For Q8 (3) [Wages at age 61 (average level) when the wage just before age 60 is 100], values exceeding the "mean \pm 2 \times standard deviation" are considered outliers and excluded from the sample.	72.57	15.45	33	110
Wages at age 61 (lowest level)	For Q8 (3) [Wages at age 61 (lowest level) when the value just before age 60 is 100], values exceeding the "mean \pm 2 \times standard deviation" are considered outliers and excluded from the sample.	64.91	17.87	25	101
Job contents in continuous employment					
Same job as before mandatory retirement but with a different degree of responsibility	For Q6 (1) [Job content in continuous employment], the value is 1 if "Same job as before mandatory retirement (around age 60) but different degree of responsibility," and 0 otherwise.	0.49	0.50	0	1
Partially different job	For Q6 (1) [Job content in continuous employment], the value is 1 if "Partially different job from before mandatory retirement (around age 60)," and 0 otherwise.	0.09	0.29	0	1
Completely different job	For Q6 (1) [Job content in continuous employment], the value is 1 if "Completely different job from before mandatory retirement (around age 60)," and 0 otherwise.	0.01	0.09	0	1
Other	For Q6 (1) [Job content in continuous employment], the value is 1 for "Other," and 0 otherwise.	0.01	0.08	0	1
Employment security challenges for workers in their early 60s					
Unable to hire younger workers	For Q7 [Employment security challenges for workers in their early 60s], the value is 1 for "Cannot recruit younger workers, resulting in an uneven age structure," and 0 otherwise.	0.25	0.43	0	1
Considerations when assigning older workers					
Consideration for individual's wishes	For Q6 (2) [Considerations when assigning workers in continuous employment], the value is 1 for "Consideration for individual's wishes," and 0 otherwise.	0.61	0.49	0	1
Continuation of work to which the individual is accustomed	For Q6 (2) [Considerations when assigning workers in continuous employment], the value is 1 for "Continuation of work to which the individual is accustomed," and 0 otherwise.	0.83	0.38	0	1
Work that is less physically demanding	For Q6 (2) [Considerations when assigning workers in continuous employment], the value is 1 for "Work that is less physically demanding," and 0 otherwise.	0.24	0.43	0	1
Improvement of equipment and work environment	For Q6 (2) [Considerations when assigning workers in continuous employment], the value is 1 for "Improvement of equipment and work environment," and 0 otherwise.	0.02	0.14	0	1
Assignment to departments with labor shortages	For Q6 (2) [Considerations when assigning workers in continuous employment], the value is 1 for "Assignment to departments with labor shortages," and 0 otherwise.	0.06	0.25	0	1
Passing on skills and expertise	For Q6 (2) [Considerations when assigning workers in continuous employment], the value is 1 for "Passing on skills and expertise," and 0 otherwise.	0.36	0.48	0	1
Assignment of employees so that they feel comfortable with each other	For Q6 (2) [Considerations when assigning workers in continuous employment], the value is 1 for "Assignment of employees so that they feel comfortable with each other," and 0 otherwise.	0.09	0.29	0	1
Raising awareness of workers with management experience	For Q6 (2) [Considerations when assigning workers in continuous employment], the value is 1 for "Raising awareness of workers with management experience," and 0 otherwise.	0.04	0.20	0	1
No consideration	For Q6 (2) [Considerations when assigning workers in continuous employment], the value is 1 for "No consideration," and 0 otherwise.	0.04	0.20	0	1
Securing employment for workers aged 65 and over	For Q15 [Securing employment for workers aged 65 and over], the value is 1 for "cannot work after age 65," 2 for "can work after age 65 if they wish to do so and meet certain criteria," and 3 for "all who wish can work after age 65."	1.81	0.59	1	3

Considerations when determining wages for workers in their early 60s in continuous employment					
Status of other companies in the industry	For Q10 [Considerations when determining wages for workers in their early 60s in continuous employment], the value is 1 for "Status of other companies in the industry," and 0 otherwise.	0.19	0.39	0	1
Market wages and standards	For Q10 [Considerations when determining wages for workers in their early 60s in continuous employment], the value is 1 for "Market wages and standards for job duties," and 0 otherwise.	0.21	0.40	0	1
Wage level at age 60	For Q10 [Considerations when determining wages for workers in their early 60s in continuous employment], the value is 1 for "Wage level at age 60," and 0 otherwise.	0.59	0.49	0	1
Starting wage level	For Q10 [Considerations when determining wages for workers in their early 60s in continuous employment], the value is 1 for "Firms' own starting wage level," and 0 otherwise.	0.06	0.23	0	1
Minimum wage	For Q10 [Considerations when determining wages for workers in their early 60s in continuous employment], the value is 1 for "Minimum wage in region where company is located," and 0 otherwise.	0.13	0.34	0	1
Knowledge, skill, and expertise	For Q10 [Considerations when determining wages for workers in their early 60s in continuous employment], the value is 1 for "Employee's knowledge, skill, and expertise," and 0 otherwise.	0.57	0.50	0	1
Retirement allowances entitlement status	For Q10 [Considerations when determining wages for workers in their early 60s in continuous employment], the value is 1 for "Retirement allowances entitlement status," and 0 otherwise.	0.04	0.19	0	1
Receipt of the OPAE	For Q10 [Considerations when determining wages for workers in their early 60s in continuous employment], the value is 1 for "Receipt of the Old-age Pension for Active Employees," and 0 otherwise.	0.17	0.38	0	1
Receipt of the ECBOP	For Q10 [Considerations when determining wages for workers in their early 60s in continuous employment], the value is 1 for "Receipt of the Employment Continuation Benefits for Older People," and 0 otherwise.	0.23	0.42	0	1
Firm characteristics					
Mandatory retirement age	For Q1 [Status of mandatory retirement], this is the retirement age of firms that responded "There is a mandatory retirement age."	60.62	1.64	60	70
Percentage of workers aged 60 and above	Value of F4 (3) [Number of employees (regular + non-regular) by age] divided by F4 (1) [Number of employees].	0.14	0.13	0	0.96
Percentage of workers in continuous employment who are regular employees	Q5 [Regular employees as a percentage of all workers in their early 60s in continuous employment].	0.27	0.41	0	1
Manufacturing industry	The value is 1 if F1 [Industry] is "Manufacturing," and 0 otherwise.	0.33	0.47	0	1
Transport industry	The value is 1 if F1 [Industry] is "Transport," and 0 otherwise.	0.10	0.31	0	1
Wholesale and retail trade industry	The value is 1 if F1 [Industry] is "Wholesale and retail trade," and 0 otherwise.	0.19	0.40	0	1
Service industry	The value is 1 if F1 [Industry] is "Services," and 0 otherwise.	0.22	0.42	0	1
1950 or before	For F2 [Year of establishment], the value is 1 for "1950 or before," and 0 otherwise.	0.23	0.42	0	1
1951–1970	For F2 [Year of establishment], the value is 1 for "1951–1970," and 0 otherwise.	0.36	0.48	0	1
1971–1990	For F2 [Year of establishment], the value is 1 for "1971–1990," and 0 otherwise.	0.27	0.44	0	1
1991–2000	For F2 [Year of establishment], the value is 1 for "1991–2000," and 0 otherwise.	0.07	0.26	0	1
50–99 employees	For F4 [Number of employees], the value is 1 for "50–99," and 0 otherwise.	0.39	0.49	0	1
100–299 employees	For F4 [Number of employees], the value is 1 for "100–299," and 0 otherwise.	0.39	0.49	0	1
300–999 employees	For F4 [Number of employees], the value is 1 for "300–999," and 0 otherwise.	0.12	0.33	0	1
1000 and more employees	For F4 [Number of employees], the value is 1 for "1000 or more," and 0 otherwise.	0.04	0.19	0	1

Sample size = 2,442

Appended Table 2. Associations between job contents in continuous employment and employment security after age 65 (multinomial probit)

	(1)	(2a)	(2b)	(3a)	(3b)
	Cannot work after age 65 (base)	Can work after age 65 if they wish to do so and meet certain criteria		All who wish can work after age 65	
	Marginal effect	Coefficient	Marginal effect	Coefficient	Marginal effect
Job contents in continuous employment					
Same job as before mandatory retirement but with a different degree of responsibility	0.082*** [0.021]	-0.295*** (0.092)	-0.039* [0.022]	-0.594*** (0.125)	-0.043*** [0.012]
Partially different job	0.102*** [0.036]	-0.350** (0.140)	-0.056 [0.037]	-0.779*** (0.216)	-0.046*** [0.012]
Completely different job	0.303** [0.124]	-1.108** (0.456)	-0.272** [0.125]	-0.969 (0.642)	-0.031 [0.043]
Other	-0.005 [0.109]	0.141 (0.486)	0.083 [0.109]	-9.989*** (0.310)	-0.078*** [0.006]
Sample size		2,442			
Sample size for each response	704	1,507		231	
AdjustedCountR ²		0.08			
Wald test H ₀ : Coefficients of all variables except the constant are zero		9924.64***			

Notes: 1. Figures in parentheses () are standard errors adjusted for heterogeneity, and figures in [] are standard errors calculated using the Delta method.

2. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

3. The marginal effect of a dummy variable indicates the amount of change when the variable goes from 0 to 1.

4. Coefficients and constant terms for variables related to firm characteristics in the estimated model are omitted.

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Notes

1. For example, Yamada (2000), who analyzed the decline in wage rates of those who have reached mandatory retirement age, shows that wages decline by about 19% in the case of reemployment with a change of employer (i.e., without continuous employment) compared to those in continuous employment after mandatory retirement. Even if an older worker wishes to be reemployed with a different employer, the cost of their reemployment may be high due to asymmetric information and discrimination, and it may be difficult for the older person to find a reemployment opportunity that matches their skills. Many studies have been conducted in Europe and the US on the existence of discrimination against older people. Recent studies suggest that the effect of discrimination against older people is larger for women than for men (Neumark, Burn and Button 2019; Carlsson and Eriksson 2019).

2. In a recent case, the merits of reducing the basic salary for the reemployed person at post-mandatory retirement were disputed in the lawsuit (The *Nagoya Automotive School (rehiring)* Case). A court ruling in the lawsuit made a guideline that it would be unreasonable if the basic salary of a rehired employee was reduced below 60% of the pre-retirement salary when the re-employees' job contents and degree of responsibility were the same as those of regular employees (Nagoya District Court, October 28, 2020 judgment, *Rodo Hanrei* 1233: 5–25, Sanro Research Institute).

3. The act of presenting working conditions that are unreasonable and unacceptable to workers when rehiring may constitute an illegal action that infringes on the legally protected benefit of stable employment until age 65, as an indirect effect of the obligation on the part of the firms to take measures to ensure employment (Fukuoka High Court, September 7, 2017 judgment (The *Kyushu Sozai* Case), *Rodo Hanrei* 1167: 49–63, Sanro Research Institute).

4. As discussed in Part IV, there is also the fact that wages over 60 are set lower due to institutional factors such as the Old-age Pension for Active Employees (OPAE) and the Employment Continuation Benefits for Older People (ECBOP). As for the OPAE, the pension

payment of elderly workers is reduced depending on their labor income after age 60. As for the ECBOP, workers reemployed after age 60 can receive subsidies when the wage after age 60 is less than 75% of the wage at age 60.

5. With regard to the possibility that the increase in employment of older people has hampered the recruitment of female part-time workers, Teruyama, Goto and Lechevalier (2018) used the “Basic Survey of Japanese Business Structure and Activities” conducted by the METI from 2000 to 2014. Using microdata from this survey, they estimated labor demand functions for part-time labor and dispatched labor, respectively, assuming that changes in the labor force participation rate of workers aged 60 and above are labor supply-side factors. They then showed that the increase in the labor force participation rate of workers aged 60 and above has a negative impact on both the ratio of part-time workers and the ratio of dispatched workers within firms.

6. There was no answer with regard to industry and firm size from 3.1% and 3.4% of the respondents, respectively. Note that the microdata used in this study is archived data with confidentiality processing, so some items differ from the values reported by the JILPT (2016).

7. As shown in Appended Table 1, even when the sample is restricted to firms for which all information used for analysis is available, the percentages of industries and firm size are not significantly different from before the sample was restricted.

8. Correlations between the error terms in each of the estimation equations in columns (1) through (9) were also estimated using the SUR model, but the results were not significantly different.

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Key topic

The 2022 *Shunto* Results and Challenges: Labor and Management Shared a Recognition of the Need for “Investment in People”

OGINO Noboru

The spring wage negotiations, *Shunto*, of 2022 saw a succession of companies responding to union demands in full on March 16, 2022, which was the concentrated response date for major companies and the most critical point in the negotiations. The responses from the majority of companies to their company-based unions indicated a year-on-year increase, reflecting a recovery in corporate performance. Behind this outcome—which came despite the uncertainties such as rising prices associated with resources and energy including crude oil and the situation in Ukraine—were an inclination among companies to reward employees for their efforts to keep business going amid the COVID-19 pandemic and a shared recognition between labor and management of the need for “investment in people” as a source of growth for the post-COVID world. There were also cases of companies that were responding to the Kishida administration’s desire to see enterprises whose performance had improved raise wages; and of companies that sought to take advantage of various policy measures, such as a tax system devised to encourage higher wages.

This result elicited wage responses surpassing those of major companies from some mid-tier enterprises and small and medium-sized enterprises (SMEs) whose negotiations were already in full swing. In addition, hourly wage increases for part-time and non-regular workers were also strong. Thus, the ideal of “equal pay for equal work” is gaining traction, and disparities among types of employment are being corrected.

The wage increase rate reaches 2.07%, recovering to the 2% level for the first time in three years



The Japanese Trade Union Confederation (JTUC-Rengo; Tomoko Yoshino, President) reported the aggregated result of companies’ final responses for the 2022 *Shunto* on July 5, 2022. According to this report, the weighted average of the amount of wage increase (including portions equivalent to regular pay raises) using the average wage method was 6,004 yen, or 824 yen above the final result of the previous year. The rate was 2.07%, which was 0.29 percentage points higher than last year’s final result, and reached the 2% level for the first time in three years.

The weighted average of wage increase for unions where the amount of wage increase associated with base pay hikes (across-the-board wage increases, called “*base-up*” in Japan) and wage improvement¹ was clearly calculable (2,213 unions) was 1,864 yen, up 262 yen from the previous year (excluding regular pay raises), for a rate of 0.63%, up 0.08 percentage points from the previous year. By size of company, wages increased by 390 yen compared to the previous year to 1,772 yen (0.72%) for companies with “fewer than 300” employees and by 241 yen to 1,873 yen (0.62%) for “300 or more.” The wage increase rate for unions of SMEs with “fewer than 300” was higher than the overall total and those of “300 or more,” suggesting that unions at SMEs (SME unions) are doing well. Both the amount and rate of wage increases for “fewer than 300” are the highest since

the 2015 offensive, when data on SMEs' wage increases were first aggregated (Figure 1).

The wage increase for non-regular workers (fixed-term, part-time, and contract workers) was 23.43 yen (weighted-average hourly wage; total of 754,004 workers), which was 3.52 yen above the previous year's hike. The average hourly wage stood at 1,047 yen.

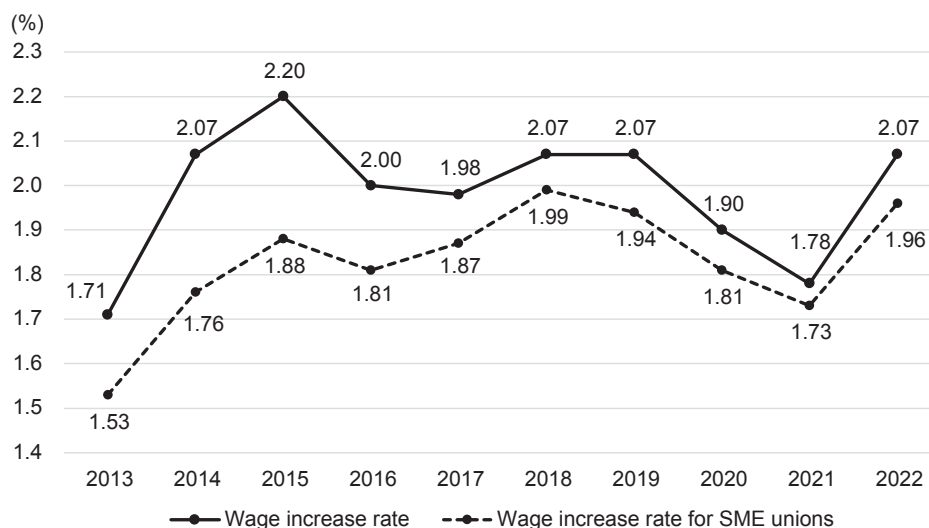
As for responses concerning annual lump-sum payments, payments for union members who are full-time workers covered 4.87 months per year, which was 0.25 months higher than those of the previous year. In terms of monetary value, the average was 1,560,045 yen, an increase of 39,921 yen over the previous year.

The weighted-average number of months in responses concerning annual lump-sum payments for part-time workers (79,951 workers) was 0.82 months. The annual amount (101,156 workers) was 73,748 yen.

JTUC-Rengo/Spring Struggle Committee summary report and management's view

In June, JTUC-Rengo and the Joint Spring Struggle Committee (comprised of the National Confederation of Trade Unions [Zenroren], Jun-Churitsu-Kumiai Kondankai [a discussion group of independent trade unions], regional joint struggle organizations, and others) each affirmed their mid-term report concerning the progress and results of the 2022 *Shunto*. Given that wage increases ended up being among the highest levels achieved at spring negotiations in which wage increases resurged since 2014, they appraised the 2022 *Shunto*'s result as showing "[that unions] played a certain role as a driving force" (JTUC-Rengo) and presenting "progressive responses, with the largest hikes in terms of amount and rate in the past two decades" (Joint Spring Struggle Committee).

JTUC-Rengo appreciated the fact that, although there are variations in the status of responses among industries, many unions won wage increases, and the



Source: JTUC-Rengo, "Results of spring wage negotiation final responses."

Note: Data for each year are wage increase rate (including portions equivalent to automatic raises of monthly basic wage) based on the average wage method (weighted average).

Figure 1. Changes in wage increase rates in *Shunto* (tabulated results of companies' final responses, 2013 to 2022)

number of unions that won wage improvements is expected to be the second largest following the 2014 and 2015 spring wage offensives. In its summary report, JTUC-Rengo stated, “Labor-management negotiations were conducted in the midst of Russia’s invasion of Ukraine and soaring fuel and material prices in addition to the effects of the COVID-19 pandemic. Nonetheless, they produced results that came from persistent negotiations from a medium-to-long-term perspective, with a focus on “investment in people” and monthly wages. Thus labor unions were able to play a certain role as a ‘driving force’ in moving society forward.”

In the recent spring wage offensive, JTUC-Rengo, under the slogan of “Future-Building Spring Struggle,” actively called for “investment in people,” which will become the driving force of economic and social vitality, rather than following the economy. It noted that Keidanren (Japan Business Federation) expressed a certain degree of understanding of this view in its 2022 Report of the Committee on Management and Labor Policy, which serves as a negotiating guide for management. It also observed that many in labor and management appear to have shared awareness of this issue and a deepened recognition of it, noting as an example the fact that the recruitment and retention of current and future human resources became focus points in individual negotiations. Moreover, with respect to the transportation and tourism-related industries, where the business environment remains harsh due to the effects of the COVID-19 pandemic, JTUC-Rengo expressed recognition that, while the movement of responses was sluggish, “some unions were able to deepen labor-management recognition of the need for ‘investment in people’ to restore damaged labor conditions.”

Regarding the “correction of disparities,” which was one of the themes of the recent spring offensive, JTUC-Rengo stated in its summary report that (1) SME unions did well overall, as wage increases were highest in terms of both amount and rate since the 2015 wage offensive, when the wage increases of SMEs began to be aggregated, and the distribution of amounts including regular pay raises shifted higher;

and (2) wage increases for non-regular workers (fixed-term, part-time, and contract workers) exceeded those of general union members, and thus progress was made toward the correction of disparities.

Upon receiving the results of the concentrated response date of March 16, Masakazu Tokura, Chairperson of Keidanren, commented, “My frank assessment is that the momentum for wage increases is being steadily maintained and strengthened. Many companies—primarily in automobiles, electrical machinery, steel, and other key industries of Japan—responded that, not only would they implement base pay hikes, but they would provide base pay hikes, bonuses, and lump-sum payments that exceed amounts of the previous year and the year before. Some companies even gave responses that fully met their unions’ demands.”

Moreover, at a regular press conference held on March 18, Chairperson Tokura said, “We will continue to call on big companies to take the lead in promoting fair transaction prices, such as by participating in the Declaration of Partnership Building initiative, to ensure that this momentum for wage increases will also extend to the small and medium-sized enterprises.” Thus, both labor and management assessed the 2022 *Shunto*’s results similarly and shared expectations that SMEs will make appropriate wage increases through the passing on of costs.

Many responses fully meeting union demands in automobiles and electrical machinery; growing decentralization of negotiations

A JTUC-Rengo/Keidanren top management roundtable meeting held on January 26, 2022—the gathering that effectively kicked off this year’s negotiations—resulted in a shared recognition between labor and management of the need for “investment in people” and for wage increases by SMEs. This can be seen as having influenced subsequent labor-management negotiations at the individual enterprise level. On the other hand, the shift in *Shunto* from “industry-wide and uniform

wage increases” to wage determination based on actual company circumstances, an approach that the management side has been calling for these past several years, was more pronounced in this year’s negotiations. In labor-management negotiations in industries that serve as pattern setters, such as automobiles and electrical machinery, an even stronger tendency for responses to be scattered and decentralized emerged.

The automakers’ labor unions were conspicuous in reviving their demands for a base pay hike, as those companies have been enjoying better performance compared to 2021. In part because the assertions made by labor and management did not diverge greatly, negotiations concluded with Toyota, Nissan, and Honda Motor effectively deciding to fully meet their unions’ demands one week before the designated employer response date. The four companies of Mazda, Mitsubishi Motors, Subaru, and Yamaha Motor followed by presenting similar responses on the concentrated response date.

Among the unions of major manufacturers affiliated with the Japanese Electrical Electronic & Information Union (Denki Rengo), the four of Hitachi, Toshiba, NEC, and Murata Manufacturing received responses that their demands would be met in full. The Denki Rengo made a uniform demand based on individual points for “core development and design workers,” which is a major item of job category-specific wages, and the four companies responded by raising wages by 3,000 yen as per the union’s demand.

One can conclude that, within labor-management negotiations involving such major companies, the two sides shared a common understanding of the need for “investment in people” to overcome issues such as the delays in digitalization that became apparent during the COVID-19 pandemic, weak resilience, and wage levels that continue to fall behind those of other developed countries. Toyota has been holding labor-management discussions for several years to cope with a coming “once-in-a-century” revolution in the automobile industry. This trend is not limited to talks in the automobile industry. Discussions on “job-based employment” that are

taking place in major electrical machinery companies and others with a view to restructuring the Japanese-style employment system can also be seen as efforts to bring about sustainable industries, companies, and human resources in the post-COVID era.

Promoting digital transformation and working toward carbon neutrality are indispensable for restarting economic growth in the post-COVID era. Securing innovators and similar human resources will be required for both. The need to invest in such human resources is behind companies’ responses that fully met unions’ demands in the *Shunto*, and it is reflected in, for example, increases in the starting salaries of new university and junior college graduates that went beyond unions’ demands.

Looking ahead to the 2023 *Shunto*

JTUC-Rengo stresses the need to continue wage increases next year and beyond to secure real wages. Specifically, JTUC-Rengo states in its summary report that “although nominal scheduled wages are expected to be positive in FY2022, real wages that take prices into account are likely to be negative” and that “it is necessary to realize policies aimed at ‘reversing the long-term downward trend in real wages’ through continuous wage increases.”

In light of these issues, JTUC-Rengo decided at a Central Committee meeting on December 1 to set its demands for the 2023 spring offensive (*Shunto*) at around 3% for base pay hikes and about 5% for wage increases that include portions equivalent to automatic raises of monthly basic wage (for the maintenance of wage curves) from a macro perspective to make the *Shunto* a turning point in sustaining and improving working people’s lives.

As consumer prices continue to rise, the government is also expressing its expectations for next spring’s labor-management negotiations. At the Council of New Form of Capitalism Realization held on October 4, Prime Minister Kishida said before top leaders of labor and management in attendance that “In next spring’s wage negotiations, we would like to see labor and management hold discussions that take into account the circumstances of individual companies, with the goal of raising wages to cover

rising prices.”

At a press conference on October 18, Keidanren Chairperson Masakazu Tokura commented on JTUC-Rengo’s proposed policy, saying that he was not surprised to see higher figures than last year, given rising prices. He further stated that it is true that the current price increases are placing a burden on workers, and that “we must recognize anew the role and function of base pay hikes.” At a time when price hikes are highly likely to continue, he expressed the view that “we are well aware that price trends are the most important factor to be taken into account.”

Thus, the government, labor, and management share in the recognition that raising wages has become a pressing issue in light of recently rising prices. Attention will be focused on whether the

public and private sectors can work together to achieve wage increases that counterbalance rising prices ahead of the 2023 *Shunto*.

1. Wage improvement is a term coined by labor unions during the 2006 *Shunto* as a replacement for “*base-up*” (across-the-board wage increases). Until then, in *Shunto*, base pay hikes had been implemented as a means to prevent decline in real wages caused by rising prices. In recent years, with the fall in prices and the introduction of performance-based policies, management has become strongly resistant to base pay hikes and a situation where labor unions cannot strongly demand such raises has continued. Starting around 2005, when the economy began to recover, the labor unions demanded that more resources be devoted to pay raises, while management introduced wage increases limited to specific groups such as young and mid-career workers and those with highly positive personnel evaluations. These are collectively referred to as wage improvement.

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Research interest: Non-regular employment, Industrial relations.

Commentary

Disguised Contracting and the Deemed Labor Contract Application by the Client under Item 5 of Paragraph 1 of Article 40-6 of the Worker Dispatching Act

The *Tori* Case

Osaka High Court (Nov.4, 2021) 1253 *Rohan* 60

ZHONG Qi

I. Facts

Y is a joint-stock company engaged in the manufacture and sale business of various floor coverings and carpets. There are many manufacturing works at Y's Factory D, among which X et al. were in charge of the baseboard and chemical product manufacturing processes.

Company A is a special limited liability company whose purpose is to provide contracting services for the manufacture of baseboards and flooring materials, etc. There is no capital relationship or personnel relationship, such as a concurrent directorship, between Company A and Y.

Since March 30, 1999, Company Y has concluded and revised a basic service contract agreement with Company A concerning the manufacturing and processing of baseboards. The latest basic contracts include one for the manufacture and processing of baseboards (hereinafter referred to as "Service Contract 1") and another for the manufacture and processing of adhesives ("Service Contract 2"). Each contract and memorandum of understanding stipulates the content, duration, amount, quantity, and place of work to be performed, etc.

X et al. were employed by Company A and were engaged in the baseboard or chemical product manufacturing processes at Company Y's Factory D.

Company A decided to terminate Service Contract

1 on February 28, 2017, and on March 1 of the same year, it concluded an individual worker dispatch contract with Y, specifying the dispatch destination as Factory D, the work as baseboard manufacturing work, the dispatch period as March 1 to 30, 2017, and dispatched 12 workers including 4 from X et al. to the baseboard manufacturing process. Meanwhile, Service Contract 2 continued until March 31, and was terminated on the same day. In accordance with this, X et al. were dismissed from Company A along with other workers on the 30th of the same month. Thereafter, Company Q took over Company A's business using dispatched workers, while X et al. were not hired by Company Q.

X et al. claimed that after March 21, 2017, Y was deemed to have made an offer of direct employment to X et al. on the grounds that Service Contract 1 and 2 fell under item 5 of paragraph 1 of Article 40-6 of the Worker Dispatching Act (Concluding any contract for work or other contract under any title other than worker dispatch for the purpose of evading the application of the provisions of this Act or any law that is applicable = so-called disguised contracting), and that X et al. expressed their acceptance of Y's offer, and that a labor contract was established between them and Y. However, since Y denied the existence of a labor contract with X et al., X et al. filed a suit seeking confirmation of their status under the labor contract and payment of wages.

The judgment in the first instance (Kobe District Court (Mar. 13, 2020) 1223 *Rohan* 27) dismissed X et al.'s claim on the grounds that their work relationship did not constitute disguised contracting, and X et al. appealed.

The contentious issues are (1) whether working in the baseboard and chemical product manufacturing processes were conducted in a state of disguised contracting, etc., at around March 2017 at the latest, (2) whether Y had the intent to engage in disguised contracting, etc., (3) the working conditions of X et al. and (4) when X5 expressed his intention to accept. In this paper, (3) and (4) will be omitted.

II. Judgment

Reversal of the original judgment (confirming that X et al. have labor contract status at Y).

1. Whether workers were engaging in the baseboard and chemical product manufacturing processes in a state of disguised contracting, etc., at around March 2017 at the latest.

“If the contractor does not give the workers any orders, and the client gives direct orders to the workers to perform the work in the same place, this cannot be considered to be a contract agreement, even if the legal form of the service contract is adopted between the contractor and the client.”

“With regard to the distinction between worker dispatching and contracting, the ‘Notice of the Standards for the Classification of Worker Dispatching Undertakings and Subcontracting Undertakings’ (hereinafter referred to as the “Classification Standards”) is an administrative interpretation of the Worker Dispatching Act from the perspective that, in order to ensure proper implementation of the Act, it is necessary to accurately determine whether or not an undertaking falls under the classification of worker dispatching. Since its content is regarded as reasonable, it is appropriate to refer to it in this case.”

(1) Whether or not Company A directly utilizes the labor force of workers employed by itself

“The fact that Y did not communicate directly

with Company A's workers does not mean that Y did not give instructions to Company A's workers. Rather, looking at the content of the information that was communicated, it is recognized that the content of the communication prepared by Y's technical staff was specific instructions on work procedures.”

“While there is no evidence to suggest that Company A requested changes to Y's manufacturing requests or negotiated the content of such requests, the weekly manufacturing schedule prepared by Company A and confirmed by Y's technical staff was a detailed one that described the model numbers and quantities of products to be manufactured daily on site, and was subject to revision by Y's technical staff.” Therefore, it cannot be recognized that Company A was able to freely determine the speed of work execution, the allocation and the order of work at its own discretion when preparing the weekly manufacturing schedule. Furthermore, there is insufficient evidence to support that Company A conducted its own quality inspections of the products manufactured in each process before delivering them to Y. Therefore, it is difficult to evaluate the delivery of the manufacturing request form and the preparation of the weekly manufacturing schedule as the process of receiving and placing an order for a service contract (from Y to Company A). “Rather, the preparation of the weekly manufacturing schedule indicates that Y had direct control over the on-site labor force in the baseboard and chemical product manufacturing processes, as well as in other processes.”

“Company A cannot be found to have provided instructions or other management regarding the method of execution of the work in the baseboard and chemical product manufacturing processes, and thus the requirements for contracting as stipulated in Article 2 (1) (a) of the Classification Standards ‘The party shall give instructions and other management regarding the performance of the work by falling under any of the following conditions: (1) To give instructions and other management concerning the method by which work should be performed to workers by itself. (2) To give instructions and other management related to the evaluation, etc. of the

workers' performance of work itself.' have not been met."

"Since Company A merely formally kept track of the workers' working hours and cannot be found to have managed the working hours, the requirements for contracting as stipulated in Article 2 (1) (b) of the Classification Standards 'The party shall give instructions and other management regarding working hours, etc. by itself by falling under any of the following conditions: (1) To give instructions and other management regarding the times that workers start and end work, their rest periods, days off, leave, etc., (excluding mere ascertainment of these) by themselves. (2) To give instructions and other management when extending the working hours of workers, or having them work on days off (excluding mere ascertainment of working hours, etc. in these cases.) by itself.'" have also not been met."

"It is recognized that when a worker from Company A caused an accident, the full-time chief manager or the chief manager of Company A reported the accident to Y and instructed the worker concerned, but there is insufficient evidence to support that this was reported to President C (the president of Company A) or that, based on this, Company A gave instructions on worker discipline. In addition, ...when X5 took paid leave, the arrangement for a support person was made by contacting the Section Chief I, an employee of Y, and there is no evidence that President C was involved in this arrangement. In light of these points, the requirements for contracting, as stipulated in Article 2 (1) (c) of the Classification Standards 'The party shall give instructions and other management to maintain and ensure order in the company by itself by falling under any of the following conditions: (1) To give instructions and other management relating to the discipline of workers by itself. (2) To make decisions and changes in worker assignments, etc., by itself.' cannot be said to have been met."

(2) Whether or not Company A independently handles the work undertaken under the service contract as its own business.

"Although Company A made reports, etc. to Y

when defects occurred in its products, there is no evidence that Company A was ever requested by Y to fulfill its legal responsibilities as a contractor under Service Contract 1 and 2, so it is not recognized that Company A was, in fact, legally responsible as a contractor under the service contract."

"Company A cannot be considered to have prepared and procured raw materials and manufacturing machines at its own responsibility or expense."

"It is not recognized that Company A had the ability or know-how to independently provide the worker training necessary for the baseboard and chemical product manufacturing processes. In the first place, the knowledge and skill required for X et al. to operate in the baseboard manufacturing process were acquired through on-the-job instruction by R, who was an employee of Y, and not through education or training received from Company A."

"Considering these circumstances, it cannot be said that Company A handled the work contracted by Y as its own business independently from Y. Therefore, the following requirements for contracting, as stipulated in Article 2 (2) of the Classification Standards, are not satisfied: 'The party shall handle the work undertaken under the contract independently from the counterparty of the contract as its own work by falling under (a), (b), and (c). (1) To handle the work by means of machinery, equipment or tools (excluding simple tools necessary for work), or materials or supplies to be prepared and procured at its own responsibility and expense. (2) To handle the work based on its own planning or its own specialized techniques or experience'"

"It is recognized that Company A's workers have been working in the baseboard manufacturing process at Factory D based on a service contract between Company A and Y since around 1999, and that Company A's workers and Y's workers were mixed in the baseboard manufacturing process at that time, both providing labor under the direction and supervision of Y. It is clear that the said service contract was not an actual service contract, but an evasive act to escape the prohibition of worker dispatch in the manufacturing industry. Even after

the 2004 revision permitted worker dispatch in the manufacturing industry, there was a mixing of Company A's workers and Y's workers in the baseboard and chemical product manufacturing processes until around 2010, and even after the mixing was eliminated, workers like X et al., who worked in other processes at Y, received instructions from Y regarding detailed manufacturing procedures and methods, and manufactured products according to Y's manufacturing plants. It is also recognized that Y was the one who practically managed the working hours of the workers. Therefore, there was no actual status of Service Contract 1 and 2 as independent service contracts. ...Therefore, the baseboard and chemical product manufacturing processes have been conducted in a state of disguised contracting, etc. since April 1, 2016, the conclusion date of Service Contract 1 and 2."

2. Whether Y had the intent to engage in disguised contracting, etc.

"In the case of item 5 of paragraph 1 of Article 40-6 of the Worker Dispatching Act (disguised contracting), the requirement is that the person receiving the provision of worker dispatch services has the intent to engage in disguised contracting, etc. This is because, while the fact of violation is relatively clear in the case of items 1 through 4 of the same paragraph, in the case of Item 5 of the same paragraph, the distinction between the order in worker dispatching and the instruction, etc. by the contracting client may be subtle, and it is not reasonable to immediately impose the aforementioned civil sanction merely because the person who concluded the service contract gave the order as in worker dispatching. It is understood that a subjective requirement of the intent to engage in disguised contracting, etc., in particular, is added. Such a subjective requirement is usually inferred from objective facts, except in cases where the recipient of the worker dispatch services admits this itself. However, in light of the purpose for which the subjective requirement of the intent to engage in disguised contracting, etc. was specifically added, it is not reasonable to infer that the intent to engage in

disguised contracting, etc. exists immediately upon the occurrence of the state of disguised contracting, etc. However, in cases where it is recognized that the contractor has routinely and continuously engaged in disguised contracting, etc., unless there are special circumstances, it is reasonable to infer that a representative of a juridical person receiving worker dispatching services, or a person who has the authority to conclude a contract concerning worker dispatching services, while being aware of the state of disguised contracting, etc., has been systematically receiving services for the purpose of disguised contracting, etc."

"It is clear that Company A's provision of services to Y around 1999, when Company A entered into a service contract with Y and began to be involved in the baseboard manufacturing process, was a disguised contract, and it is conceded that Y was also aware of this fact. Even after the manufacturing industry was recognized as a target industry for worker dispatching under the 2004 amendment of the Worker Dispatching Act, there was no immediate change in the way Company A's workers provided labor in the baseboard manufacturing process at Factory D. Until around 2010, it is recognized that Y's worker R was working together with Company A's workers in the baseboard manufacturing process, and that Company A's workers were mixed with Y's workers in the chemical product manufacturing process. It is recognized that around 2014, Y moved R from the baseboard manufacturing process because it was considered that R's instruction to Company A's workers in the baseboard manufacturing process was problematic from the perspective of the right of order in the service contract, but this, conversely, indicates that Y was aware of the possibility that Service Contract 1 and 2 could be regarded as disguised contracting. And since Y continued to give specific instructions to Company A's workers in the baseboard and chemical product manufacturing processes regarding the performance of their work, even after the mixing of workers had ceased, and the state of disguised contracting etc. continued on a daily and continuous basis without its dissolution, it can be inferred that Y had the intent to engage in disguised contracting, etc."

until the dissolution of Service Contract 1 and 2.”

“Y has alleged that (1) at the time of 2016, there were some processes at Factory D for which worker dispatch contracts were concluded, and there was no need to use disguised contracting, (2) the processes for which service contract agreements were concluded were suitable for contracting, and (3) Y concluded a worker dispatch contract on March 1, 2017 for the baseboard manufacturing process at the request of Company A and Company Q. In light of the aforementioned, etc., it is clear that the Factory Manager B, who was the party entitled to conclude the service contract between Y and Company A, had no intention to avoid the restrictions of the Worker Dispatching Act.”

“However, points (1) and (2), which are asserted by Y, are not sufficient to overturn the aforementioned inference as to the intent to engage in disguised contracting, etc. As for point (3), the fact that Y agreed to switch the baseboard manufacturing process from a service contract to a worker dispatch contract on March 1, 2009, and was able to continue manufacturing in the same manner as before, infers that Y was aware of the state of disguised contracting, etc., before the switching, but systematically continued to engage in disguised contracting, etc., without improving this situation. Therefore, none of Y’s arguments can be adopted. And there is no room for Y to be found to be negligent in good faith under the proviso of paragraph 1 of Article 40-6 of the Worker Dispatching Act.”

III. Commentary

1. The Overall Picture of Japanese Worker Dispatching Regulations and the Significance of this Judgment

In Japan, until the enactment of the Worker Dispatching Act in 1985, worker dispatching was totally prohibited by Article 44 of the Employment Security Act as a form of worker supply services. However, from the late 1970s to the 1980s, while companies needed to reduce labor costs by using external labor, there was a need among job seekers, especially among highly educated women, to utilize their own advanced skills and develop a proactive

professional life with a good work-life balance, and worker dispatching, which should have been prohibited, expanded in practice. Therefore, the Worker Dispatching Act of 1985 was enacted to legalize worker dispatching while regulating it as a new supply-demand adjustment system that fulfills the matching function between job seekers and job offers. However, because of the fear of eroding the employment of workers at the client, the 1985 Worker Dispatching Act adopted the so-called positive list system, which enumerated a limited number of target works for which dispatching was permitted. Subsequently, the ILO revised Convention No.96, recognizing “private employment agencies,” including worker dispatching services, as labor supply and demand adjustment agencies alongside state-run public employment security offices, and required countries ratifying the Convention to set basic rules for these employment-related services. This international situation encouraged Japan to deregulate the labor market. In 1999, the Worker Dispatching Act was revised to, in principle, lift the ban on dispatching work in all types of work and to list only prohibited works as exceptions, making worker dispatching, which had been limited to specialized work, a general labor supply and demand adjustment system. Despite this deregulation, dispatched workers still account for only 2.4% of the total Japan’s labor force as of 2018.

Until 2003, the Worker Dispatching Act had been deregulated, but after the global financial crisis of 2008, the need to protect dispatched workers was recognized, and the 2012 amendment to the Worker Dispatching Act put forth measures to strengthen the protection of dispatched workers. A typical provision is the establishment of Article 40-6 of the Worker Dispatching Act, which stipulates that, in the event of certain violations of the Worker Dispatching Act, the client shall be deemed to have made an offer of direct employment to the dispatched worker. This is the first lawsuit in which the effect of item 5 of paragraph 1 of Article 40-6 of the Worker Dispatching Act has been disputed since its establishment by the 2012 amendment, and is expected to have a significant impact on court practice in the future.

2. Development of laws and regulations governing indirect employment, including worker dispatching

In Japan, until the enactment of the Worker Dispatching Act in 1985, worker dispatching was comprehensively prohibited as a worker supply service under the objective of eliminating the harmful effects of labor coercion, kickback, etc. under parent-subsidiary control relationships and to break away from feudal labor practices. Prior to the enactment of the Worker Dispatching Act in 1985, worker supply was defined as “having a worker work under the direction and orders of another person based upon a supply contract” (Employment Security Act, Para. 6 (now Para. 8), Art. 4) and was prohibited under Article 44 of the Employment Security Act. If a worker supply service was conducted, the worker supply service owner was punished with imprisonment or a fine (Employment Security Act, Para. 10, Art. 64).

When the Worker Dispatching Act was enacted in 1985, worker dispatching, originally a form of worker supply, was excluded¹ from the definition of worker supply and excluded from the prohibition on it. Worker dispatching is defined as (1) having a worker employed by one person (2) so as to be engaged in work for another person under the instructions of the latter, while maintaining the worker’s employment relationship with the former, (3) excluding cases where the former agrees with the latter that such worker is to be employed by the latter (Worker Dispatching Act, Item 1, Art. 2). Insofar as it meets the aforementioned definition, worker dispatching is excluded from the definition of worker supply. In addition, worker dispatching is distinguished from an outsourcing service contract, in which a worker is directly employed by an employer as a contractor and engages in work under its direction and orders, in that the worker is engaged in work for another person other than the contractual employer.²

When the Worker Dispatching Act was enacted in 1985, it was based on the so-called “positive list” system, which enumerated the jobs that could be dispatched and limited the number of dispatched

workers to 16 jobs: specialized jobs (software development, interpretation, etc.) and jobs requiring special employment management (parking lot management, building cleaning, etc.). The 1996 amendment expanded the number of types of work covered to 26 (26 types of specialized work), and the 1999 amendment reversed the principle and exception to the regulation and adopted the so-called negative list system, in which only prohibited work that cannot be dispatched is enumerated. The dispatch work for which the ban was lifted is called “liberalized work,” and while there are no restrictions on the dispatch period for the 26 types of specialized work, there have been restrictions on the dispatch period for liberalized work. In addition, the ban on dispatch work in the manufacturing industry, which had been prohibited under the 1999 amendment, was lifted in 2003.

3. Development of provisions for deemed application for direct employment by the client

When the 1999 revision lifted the ban on the dispatching of liberalized work, it was stipulated that when a client hires a worker for work after the dispatch has ended, it must make an effort to hire the dispatched worker who was engaged in the work, which is also inherited in the current law (Worker Dispatching Act, Art. 40-4). In addition to this obligation of effort, the 2003 amendment further stipulates the obligation of the client to offer direct employment to the dispatched worker when exceeding the dispatchable period for liberalized work (Worker Dispatching Act, Former Art. 40-4) and when accepting a dispatched worker for the same work for more than three years for 26 types of specialized work (Worker Dispatching Act, Former Art. 40-5).

However, even if the obligation to offer direct employment had arisen, if the client violated that obligation and did not in fact offer direct employment, it was not possible to establish a labor contract relationship between the dispatched worker and the client, although sanctions, etc., under public law were in place. In response to a question about whether it is necessary in the legislative process to make

employment itself mandatory, rather than merely requiring the client to apply for employment, the government took a negative attitude toward making employment itself mandatory, because a “deemed employment system” that establishes an employment relationship regardless of the intent of the parties involved is not necessary or appropriate in relation to the freedom of companies to hire, and because there are also issues about how working conditions should be determined.³

Under the aforementioned legal circumstances, if “disguised contracting” in which dispatched workers are accepted under a name other than worker dispatch, such as contracting, is performed for the purpose of evading the application of the provisions of the Act, the question arises whether disguised contracting that constitutes illegal dispatching constitutes labor supply and violates the prohibition of worker supply under Article 44 of the Employment Security Act or whether it should be treated as worker dispatching and thus within the framework of the Worker Dispatching Act. In this regard, the High Court decision in the *Panasonic Plasma Display (Pasco)* case (Osaka High Court (Apr. 25, 2008) 960 *Rohan* 5) held that disguised contracting is worker supply in violation of the Employment Security Act, and that the contractual relationship between the subcontracting business operator (dispatching agency) and the worker is invalid because it violates public order, and also the court recognized the establishment of an implied labor contract between the worker and the client company. However, the Supreme Court decision (Supreme Court of Japan, Japan (Dec. 18, 2009) 993 *Rohan* 5) reversed the judgment of the court below and held that, in the absence of special circumstances, the labor contract between a dispatched worker and the dispatching agency is not invalid merely because the dispatch of a worker in violation of the Worker Dispatching Act has been carried out. The court also denied the establishment of an implied labor contract between the client company and the dispatched worker.

Therefore, the issue of employment liability of the client in the case of illegal worker dispatching was left to the legislative decision. Under the 2012

amendment to the Worker Dispatching Act, in the case of (1) acceptance of dispatching for prohibited work (violation of paragraph 3 of Article 4), (2) acceptance of dispatching from an unlicensed or unreported dispatching business operator (violation of Article 24-2), (3) acceptance of dispatching beyond the limit of the period allowed for dispatching (violation of paragraph 1 of Article 40-2, and Article 40-3), and (4) disguised contracting (acceptance of dispatched workers under a name other than worker dispatching for the purpose of evading the application of the provisions of the Act), the client is “deemed” to have made an offer directly to the dispatched worker to conclude a labor contract with the same working conditions as those of the dispatched worker concerned at the time of the offer (Worker Dispatching Act, Para.1, Art. 40-6).

Such regulations do not apply in cases where the client did not know that the dispatch was illegal and was not negligent in not knowing, i.e., in cases of good faith and without negligence. On the other hand, if a client accepts a dispatched worker with knowledge of illegal dispatching or without knowledge due to negligence, the client is considered to have directly offered a labor contract to the dispatched worker at the time the illegal situation occurred. This application may not be withdrawn during the period until the day on which one year has elapsed from the day on which the aforementioned act ((1)-(4)) pertaining to the application ends (Worker Dispatching Act, Para.2, Art. 40-6). Therefore, if the dispatched worker accepts said application during this period, they become directly employed by the client.

These regulations have completed the legal basis for the conversion of dispatched workers from indirect employment to direct employment with a client in Japan.

4. Criteria for Deemed Application for Labor Contract

The court presented a framework for judging that in order to fall under item 5 of paragraph 1 of Article 40-6 of the Worker Dispatching Act and to be deemed to have applied for a labor contract, it is necessary to

find that the relationship between the parties was a disguised contract and that the client had the intent to engage in disguised contracting. With regard to the judgment on the state of disguised contracting, the court held that the “Classification Standards,” which is an administrative interpretation of the Worker Dispatching Act, should be referred to, and held that (1) whether the contracting business operator gave the workers instructions on how to perform their work and managed the workers’ work, (2) whether the contracting business operator managed the workers’ working hours, (3) whether the contracting business operator gave the workers instructions on paid leave, etc., and (4) whether the contracting business operator treated the work contracted by the client as its own work, independently from the client. Regarding the determination of the intent to engage in disguised contracting, the court held that it should not be immediately inferred that there was intent to engage in disguised contracting, merely because a state of disguised contracting, etc. has occurred. However, when it is recognized that the client or ordered has continued to engage in disguised contracting on a daily and continuous basis, it is inferred that the client or ordered has the intent to engage in disguised contracting, etc., unless there are special circumstances. In this case, it was found that Y was aware that it was in a state of disguised contracting from around 1999, when it entered into a service contract with Company A and began to be involved in the baseboard process. Since it was found that Y continued in a state of disguised contracting for many years without resolving it, it was inferred that Y had the intent to engage in disguised contracting.

There are two opposing theories on the interpretation of “the purpose of evading the application of the provisions of the Act.” One is the view that the existence of a purpose to evade the Act should be presumed by the continuation of the state of disguised contracting, and that it is not necessary to independently establish that purpose.⁴ The other holds that it is necessary to independently establish the purpose of illegal evasion.⁵ The former emphasizes the importance that direct employment

should be the principle, while the latter seems to be rooted in the idea that the employer’s freedom to hire should not be excessively restricted. In the case of items 1-4 of paragraph 1 of Article 40-6 of the Worker Dispatching Act, the requirement for the legal effect of deeming a direct application is simply that the receiving company or client has committed an act in violation of the Worker Dispatching Act. In contrast, in the case of the disguised contracting type (Item 5, Para. 1, Art. 40-6), a more stringent requirement of “the purpose of evading the application of the provisions of this Act” is added for the deemed effect to occur. It is understood that this stricter requirement is imposed in consideration of the fact that the distinction between a direction as an employer and an instruction by the client in a contract agreement may be subtle in some cases. The judgement, faithful to such legal text, takes the latter position in principle. Notwithstanding that, in the absence of special circumstances, the existence of a purpose to evade the Act is inferred in cases where disguised contracting has been routinely and continuously continued. In effect, the former argument is partially adopted, and the disguised contracting purpose requirement is interpreted more loosely than the latter. This judgement adopted the ideas of opposing theories, and thus lacks logical consistency in some parts. Therefore, there will be differences of opinion as to how to evaluate this judgement.

The *Tori* case, *Rodo Hanrei* (Rohan, Sanno Research Institute) 1253, pp.60–83. See also, *Rodo horitsu junpo* (Rojun, Junposha) 2003, pp.6–12 and pp.13–24; *Monthly jurist* (Jurist, Yuhikaku) 1566, pp.4–5; *Hogaku Seminar* (Nippon Hyoron Sha) 67(9), pp.132–133; *Journal of Management Lawyers Council* (Keiei hoso kaigi) 214, pp.145–158 and pp.267–322.

1. The term “worker supply” as used in this Act means having a worker work under the direction and orders of another person based upon a supply contract, and does not include anything that constitutes worker dispatch as provided in Article 2, Item (i) of the Act on Securing the Proper Operation of Worker Dispatching Services and Protecting Dispatched Worker (Act No. 88 of 1985; hereinafter referred to as the “Worker Dispatching Act”). (Employment Security Act, Para. 8, Art. 4)

2. Under the 1999 revision to the Worker Dispatching Act, the maximum period of dispatch was limited to one year, and the 2003 revision extended the dispatch period limit from one year to

three years.

3. Ichiro Kamoshita, Vice Minister of Health, Labour and Welfare, in responding to questions in the Diet, May 14, 2003, 156th Diet Session, House of Representatives, Committee on Health, Labour and Welfare, Minutes no. 14: 34.

4. For details, see Takuya Shiomi, “2015 nen Rodosha haken ho 40 jo no 6 o meguru ronten” [Issues concerning Article 40-6 of the Worker Dispatching Act of 2015], *Rojun*, no. 1887 (May

2017): 23.

5. For the consideration on this theory, see Ryuichi Yamakawa, “Dai 10 hen, Dai 3 sho, Iho haken no baai no rodo keiyaku no moshikomi minashi seido” [Part 10, Chapter 3, Deemed application of labor contract in the case of illegal dispatching] in *Rodosha haken ho, Dai 2 han* [Worker Dispatching Act, 2nd ed.] eds, Koichi Kamata and Yasuo Suwa, (Tokyo: Sanseido, 2022), 340.

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What Causes the Gender Wage Gap in Japan?

TAGAMI Kota

I. Introduction

Japan has one of the highest levels of gender inequality among advanced countries. The Global Gender Gap Index published annually by the World Economic Forum ranks Japan at 116 of 146 countries and as the lowest of the G7 nations for the level of gender equality in 2022 (World Economic Forum 2022). Such delay in achieving gender equality in Japan is shown in the index to be most striking in the political sphere, followed by the economic sphere. In recent years achieving gender equality has also become a key issue worldwide as one of the UN's Sustainable Development Goals. In Japan, initiatives to facilitate the labor market participation and career advancement of women (*josei katsuyaku*; hereafter, "women's participation and advancement") have been pursued by the government as part of economic growth strategy since around 2013, and at present the demand for reducing gender inequality in the labor market has only grown stronger. In the labor administration field, efforts are concentrated on the policy that aims to reduce gender inequality by promoting the participation and advancement of women, who have typically been at the peripheries of the labor market.

The gender wage gap is the most extreme indicator of gender inequality in the labor market. While participation and advancement in the labor market are not solely limited to work that earns a high income, the fundamental principle of modern capitalist society, which emphasizes individual achievement as opposed to ascription, assumes that those who participate in the labor market and advance

their careers will receive high wages. That is, with greater women's participation and advancement in the labor market, the gender wage gap would decline of its own accord. In that sense, the gender wage gap can be seen as the final outcome for gauging gender inequality in the labor market. This article adopts such a perspective to address Japan's gender wage gap, introducing the current developments and the latest policy interventions.



II. Gender gaps in wage curves

The gender wage gap is often based on the average wages of men and women. However, thanks in part to the progress in statistical analysis techniques in recent years, there has been increasing research efforts around the world that focus on the gaps in the distribution overall, as opposed to simply the differences in the average figures for wages between men and women. Prior research also highlights that in Japan, as in other countries, the magnitude of the gaps differs between the top and the bottom of the wage distribution (Hara 2018).

When investigating the gender wage gap by using this approach of focusing on wage distribution, two phenomena related to gender inequality in Japan's labor market must be considered. The first is the glass ceiling hampering the progress of women into higher job positions, which typically manifests as a low proportion of women in senior management positions. This means that men are more likely to secure senior job positions with high incomes,

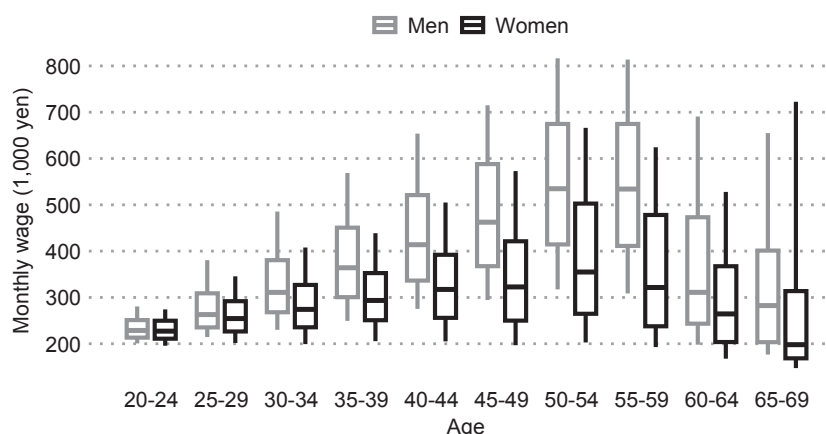
leading to a larger gender gap at the top of the wage distribution. The second is the sticky floor hindering women from making progress beyond the lower job positions in the early stages of their careers. This generally entails situations such as those in which women are only entrusted with entry-level tasks indefinitely and those in which women are promoted at a slower pace. These situations tend to lead to women remaining in lower job positions, and in turn prompt larger gender wage gaps at the bottom of the wage distribution.

It is significant to focus analysis on the wage curve, given the distinctive characteristics of the wage system in Japanese enterprises. These characteristics, as covered in detail by Nishimura (2020a; 2020b; 2020c), can be summarized as follows: Wage systems in typical Japanese enterprises are designed to pay wages according to a person's ability. As said ability is developed through long-term on-the-job training, it increases the longer the person works for an employer. This rise in wages along with increased ability (annual wage increment) leads to a seniority-based wage curve. Increased ability and thereby receiving a higher position also means an increase in wages in the form of the managerial allowance that accompanies such

promotion. If, as described above, women tend to remain in lower job positions or face difficulty progressing to higher job positions compared with men, women would have a lower slope in their wage curve. Namely, as women tend not to receive the advantages of the seniority-based wage system compared with men, comparing the forms of the wage curves presents the gender wage gap more clearly.

Building on such a perspective, Figure 1 shows a comparison of the wage distributions of men and women for each age group. It draws on tabulated data from the 2021 *Basic Survey on Wage Structure*. For simplified analysis, subjects are limited to full-time workers who are university graduates, between 20 to 69 years of age and working at a large private-sector enterprise with 1,000 or more employees.¹ The wage values used for comparison are monthly scheduled cash earnings.² The wage distribution is shown by a pseudo box plot³ using the quartiles and the 10th and 90th percentiles.

Figure 1 shows an apparent increase in the gender wage gap with age, and that the rate of wage increase with age is lower for women than men. While wage distribution is highest in the 50–54 age group for both men and women, men significantly exceed



Source: Created by the author using tabulated data (available on the e-Stat portal site) from the MHLW's 2021 *Basic Survey on Wage Structure*.

Note: Subjects used in this figure are full-time workers who are university graduates, between 20 to 69 years of age and working at a large private enterprise with 1,000 or more employees.

Figure 1. Gender gaps in Japan's wage curves (by age group)

women across all levels—the top, middle, and bottom—of the wage distribution. Looking in particular at the increase in wages between the 20–24 age group, in which there is no gender gap at all, to the 50–54 age group, which has the largest gender gap, women are unable to receive the advantages of seniority-based wages at either the top or bottom of the wage distribution.⁴ As, in terms of wage increase, this means that men are in a more beneficial position at the top of the wage distribution, the glass ceiling is the more prominent of the two aforementioned phenomena. It should be noted, however, that given the almost complete lack of change in wages with age at the bottom of the wage distribution for women, there are also clear indications of the sticky floor phenomenon.

There is also a rise in the dispersion of the wage distributions along with the increase in age, for both men and women. This is due to the distinctive nature of the typical structure dictating the promotion of workers in Japan, by which the pace at which workers receive promotions is slow and definitive differences only arise in the later stages of careers (Imada and Hirata 1995; Koike 1991). For men, the dispersion in wage distribution is greater in a younger age group, indicating that men rise to higher job positions earlier than women—another factor in the gender wage gap.

III. The mechanisms behind the gender wage gap: Managerial positions and years of service

A correct interpretation of the gender wage gap requires an understanding of what mechanisms are prompting such differences in wages. If wages differ directly because of gender, such gaps are naturally considered groundless (discrimination, in other words). On the other hand, if gender wage gaps are due to differences in ways of working between men and women and differences in the jobs pursued by men and women, such disparities may be considered rational. Gender inequality in ways of working and jobs can be described as gender inequality in opportunities, in the sense that the opportunities to earn higher wages differ between men and women.

Under typical Japanese employment practices,

enterprises provide education and training on the assumption that workers would remain employed long-term; emphasis is placed upon the development of a career within a certain enterprise, high wages are received by those who have continued to work for an employer for a considerable number of years and thereby have high managerial positions. Previous research over the years has highlighted that gender gaps in managerial positions and years of service are particularly significant factors of inequality of opportunity that prompt the gender wage gap (Yamaguchi 2019; JILPT 2010). In a white paper entitled *Hataraku josei no jitsujō* (Facts about working women) published annually since 2010, the Employment Environment and Equal Employment Bureau of the Ministry of Health, Labour and Welfare (MHLW) has built on the insights of such research to analyze factors that affect the gender wage gap. The most recent edition, 2021, estimates that while the average wage of women is around 75% of that of men, this would rise to around 85% if women were to hold the same managerial positions as men, and around 79% if women were to have the same duration of service years as men (MHLW 2021). As this indicates, the gender gaps in the distribution of managerial positions and duration of service years constitute a significant portion of gender inequality in Japan's labor market.

IV. Reducing gender inequality of opportunity in the labor market

Japan's labor policy has, over the years, implemented measures to reduce gender inequality of opportunity in the labor market. The most essential of these is the Equal Employment Opportunity Act (EEOA; Act on Securing, Etc. of Equal Opportunity and Treatment between Men and Women in Employment), enacted in 1985. The current EEOA prohibits employers from discrimination on the grounds of gender in all phases of employment management—from recruitment and hiring to assignment, promotion, education and training, and terminating an employment relationship such as retirement. Even those cases that involve discrimination on grounds other than gender but may

in effect constitute gender discrimination are prohibited as indirect discrimination. This refers to cases such as those in which being able to relocate for work is specified as a prerequisite for recruitment, hiring, promotion and change of jobs without reasonable grounds for such a condition. In Japanese society, with its still strongly rooted gender divisions of work, it is difficult for women, who are expected to look after their families, to accept job transfers that involve changing one's place of residence (relocation for work). This therefore means, for instance, that if having experience of relocating for work is made a prerequisite for promotion without reasonable grounds, many women will ultimately be at a disadvantage.

Such measures aimed at reducing inequality of opportunity also involve policies to support combining work with family life, the primary example of which is the Childcare and Family Care Leave Act (CCFCLA)⁵ enacted in the 1990s. Ikeda (2019a; 2019b) describes Japan's policies for combining work with family life. In Japanese society, where gender division of work is still firmly entrenched, many women leave their employment at the timing of life events such as having and raising children. This type of women's unique employment pattern is known as the M-shaped curve. The EEOA alone, as legislation prohibiting employers from gender discrimination, is not enough to curb such a trend of women leaving employment. This is where policy like the CCFCLA becomes essential, as it develops ways of working that allow women to combine having and raising children with work. The CCFCLA provides various forms of support for combining having and raising children with work—for example, allowing workers to take childcare leave until their child turns one year of age. In other words, the main aim of the CCFCLA is to support women to remain in employment to ensure an increase in the average years of service among women. The CCFCLA also seeks to achieve work-life balance in broader terms, as it supports workers with childcare commitments and those providing long-term care to family members.

Following the introduction of comprehensive

equality of opportunity policy in the form of the EEOA, and the support for combining work and family life provided in the CCFCLA, the year 2015 saw the establishment of the Act on Promotion of Women's Active Engagement in Professional Life (hereinafter WAPA :Women's Advancement Promotion Act). While the WAPA is often seen as a policy aimed at increasing the proportion of women in managerial positions, it is, strictly speaking, a policy to encourage affirmative action, usually called "positive-action" in Japan to facilitate the participation and advancement of women in the labor market. The current WAPA obliges private enterprises with 101 or more employees, national government ministries and agencies, and local government bodies to

- (i) ascertain the state of women's participation and advancement in their company or organization and analyze the challenges.
- (ii) formulate an action plan to solve those challenges and facilitate women's participation and advancement, and disseminate the plan within the company or organization and publicly announce it to those outside of the company or organization, and
- (iii) notify the relevant prefectural labor bureau of the action plan.

Item (i) above, in particular, requires employers to ascertain the current data for the following four categories:

- 1) the percentage accounted for by women among the workers to be employed (new hires),
- 2) the gender gap in average years of service,
- 3) the state of working hours, and
- 4) the percentage of managerial positions occupied by women.

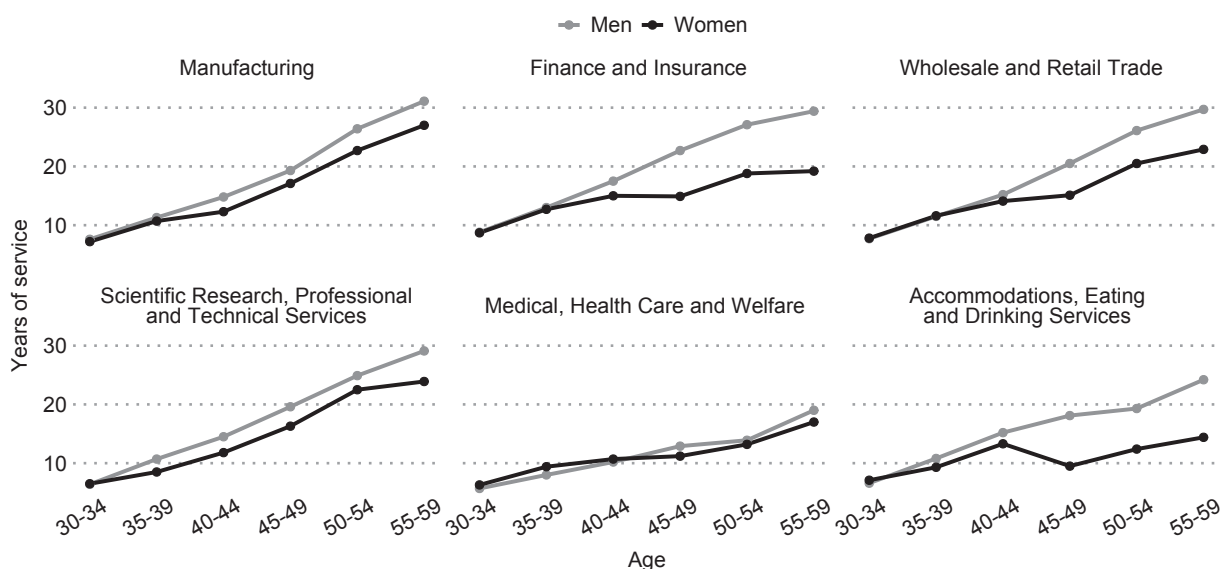
The WAPA therefore obliges enterprises to ascertain the developments in increase in years of service and eliminating the gender gap in managerial positions—the key factors behind the gender wage gap—and on that basis encourages said enterprises to take affirmative action toward women's participation and advancement.

Through such approaches, efforts are being made

across Japanese society, or labor policy if specified, to reduce the gender inequality of opportunity in the labor market. Measures are taken to support female workers to develop their long-term careers within enterprises at all stages—in the same way as their male counterparts—from improving the recruitment of women, supporting continuous employment, opportunities for education and training, and to later providing promotions to managerial positions.⁶ While such initiatives have seen some success, the present progress, in 2022, as noted at the beginning of this article, is hardly grounds for unreserved celebration. It should also be noted that the extent to which women’s participation and advancement have been achieved differs from industry to industry and it would therefore be incorrect to evaluate such progress solely based on figures for the gender wage gap for the labor market as a whole. For instance, many advanced countries have observed progress in the rise in the employment rate of women along with the development of post-industrial society—the increased dominance of the service industry—from the 1970s onward (Esping-Andersen 1999). High levels of women’s participation and advancement in

service industries related to social welfare—such as the medical, health care and welfare, and education and learning support industries—are common in Japan, as in other countries. The Japan Institute for Labour Policy and Training (2020) suggests that the current policies for women’s labor, which seek to secure in-house career development of women, may not apply well in social welfare-related service industries such as the medical, health care and welfare, and education and learning support industries, which have relatively high proportions of women workers and women in managerial positions, and in turn notes that it is important to develop frameworks for facilitating women’s participation and advancement that are suited to the circumstances of each particular industry.

It is therefore important to ascertain figures by industry for gender gaps in the years of service and percentages in managerial positions. While the data and subjects are the same as those utilized in Figure 1, for the purpose of conciseness, the focus of analysis is limited to the 30–59 age group, the principal age group of workers currently pursuing careers. The industries covered are also limited to a



Source: Created by the author using tabulated data (e-Stat data) from the MHLW’s 2021 *Basic Survey on Wage Structure*.
 Note: Subjects used in this figure are full-time workers who are university graduates, between 30 to 59 years of age and working at a large private enterprise with 1,000 or more employees.

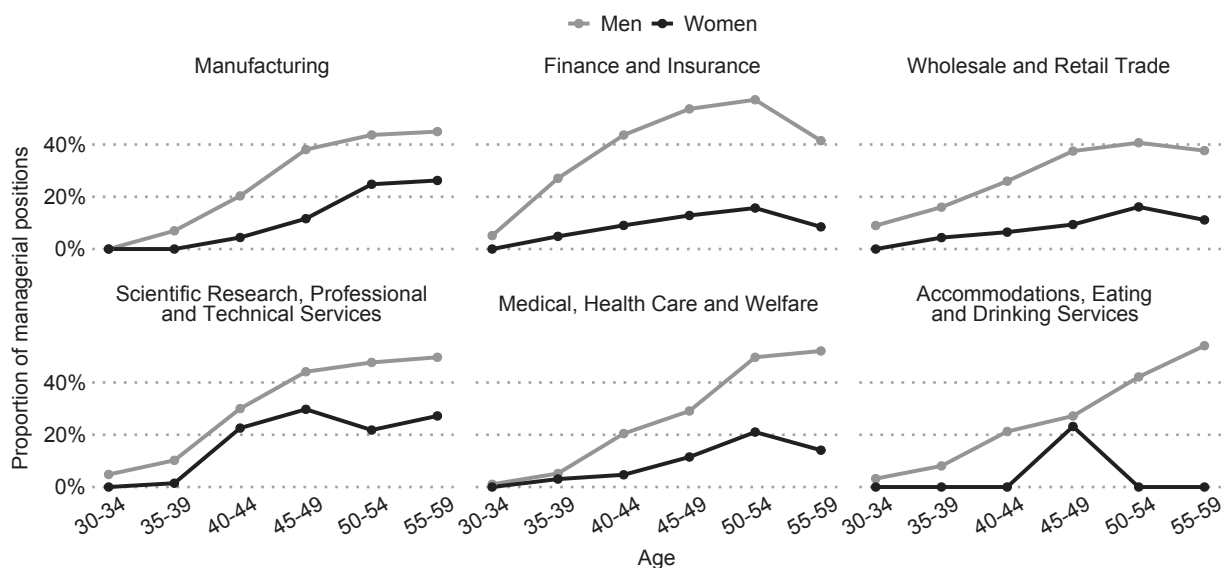
Figure 2. Gender gap in years of service by age group for each industry

total of six industries: manufacturing; finance and insurance; wholesale and retail trade; scientific research, professional and technical services; medical, health care and welfare, and accommodations, eating and drinking services.

Figure 2 shows the gender gap in average years of service by age for each industry. As years of service simply increase with age, provided low numbers of persons are leaving their employment; a gender gap in years of service indicates a difference in the percentages of those continuing in their initial employment and percentages of those leaving employment. While displaying almost no gender gap in years of service across all age groups, the medical, health care and welfare industry shows shorter years of service on the whole for both men and women compared with other industries. The manufacturing and scientific research, professional and technical services industries exhibit a similar trend, and while there is nearly no gender gap in years of service at age 30–34, the growth of years of service for women aged 35 and above is somewhat short. The other three industries show a particularly significant gender gap in years of service from age 45 onward. The

notable trend regarding years of service in the finance and insurance, wholesale and retail trade, and also accommodations, eating and drinking services industries is a considerable gender gap in years of service in the mid- to older age groups.

Figure 3 shows the gender gap in the proportions of managerial positions by age group for each industry.⁷ In all industries, the proportions of managerial positions are clearly higher for men than for women. Even in the medical, health care and welfare industry, where the gender gap in number of years of service was almost nonexistent, the gender gap in proportion of managerial positions is significant in the mid- to older age groups.⁸ While the manufacturing and scientific research and professional and technical services industries were industries with relatively small gender gaps in years of service, when it comes to proportions of managerial positions, there are significant gender gaps for the former in the 45–49 age group and for the latter in the 50–54 age group. The finance and insurance industry, which had a relatively high gender gap in years of service, has the largest gender gap for the proportion of managerial positions.



Source: Created by the author using tabulated data (e-Stat data) from the MHLW's 2021 *Basic Survey on Wage Structure*.
 Note: Subjects used in this figure are full-time workers who are university graduates, between 30 to 59 years of age and working at a large private enterprise with 1,000 or more employees.

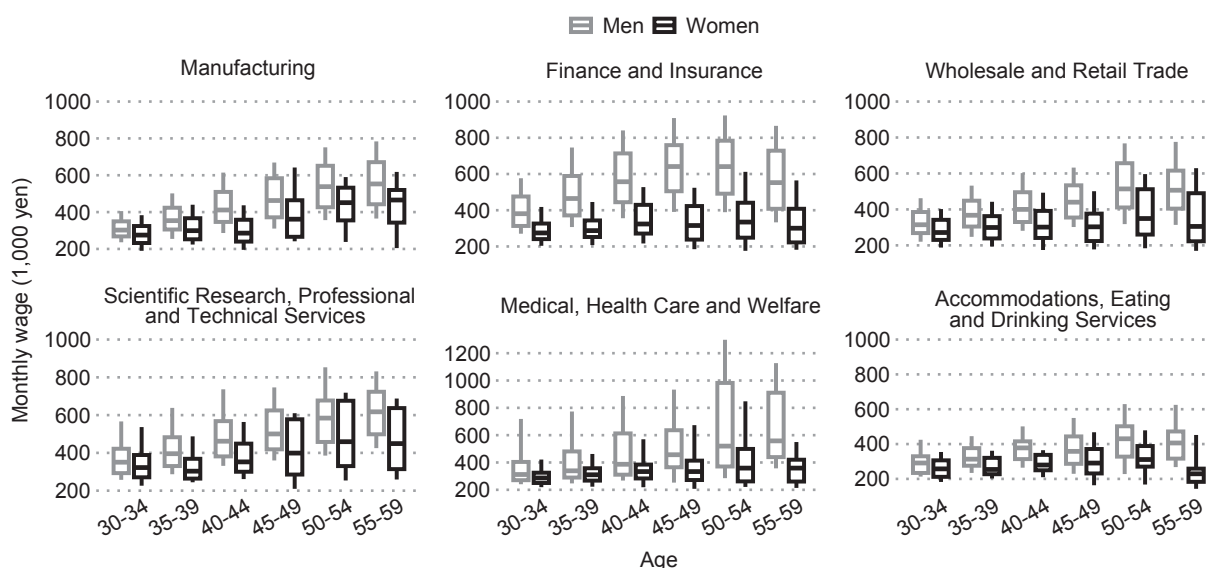
Figure 3. Gender gaps in proportion of managerial positions by age group for each industry

How does such inequality of opportunity in each industry manifest itself in the gender wage gaps in each industry? Let us address this by again drawing on tabulated data from the 2021 *Basic Survey on Wage Structure* to look at the wage curve for full-time workers who are university graduates, between 30 to 59 years of age and working at a large private enterprise with 1,000 or more employees.

As shown in Figure 4, there are significant differences in gender wage gap by industry. The most striking of these trends is in the finance and insurance industry, which has the largest gender gap in years of service and managerial positions, and where the gender wage gap is also the largest. In this industry, across almost all age groups, even the top of the wage distribution among women is lower than the bottom of the wage distribution for men, showing a significant split in wage distribution between men and women. The medical, health care and welfare industry likewise shows a distinctive gender wage gap as the top of the wage distribution for men shows an extreme increase along with age. Such a rise in the professional status of only a certain portion of men is an extreme example of the glass ceiling phenomenon.

In the scientific research, professional and technical services industry, while the top of the wage distribution shows a declining gender wage gap among the mid- to older age group, the bottom of the wage distribution for women shows little change along with age, indicating the sticky floor phenomena. The sticky floor phenomenon is also observed in the wholesale and retail trade industry. In contrast, the manufacturing industry show an increase in wages across the top, middle, and bottom of wage distribution, indicating that women receive the benefits of seniority-based wages; still, the gender wage gap is notable. Although in the accommodations, eating and drinking services industry the gender wage gap is relatively small, this is little cause for celebration given the low overall wage levels for both men and women.

As shown above, other than the finance and insurance industry—which presents the typical form of gender inequality, that is, a gender wage gap arising due to shorter years of continuous employment and lower proportions of managerial positions for women—the industries covered differ considerably in terms of the state of gender inequality. Gender



Source: Created by the author using tabulated data (e-Stat data) from the MHLW's 2021 *Basic Survey on Wage Structure*. Note: Subjects used in this figure are full-time workers who are university graduates, between 30 to 59 years of age and working at a large private enterprise with 1,000 or more employees.

Figure 4. Gender gap in the wage curve for each industry

wage gaps, and the gender inequalities of opportunity in the labor market as the mechanisms that prompt them, vary from industry to industry. Appropriate policies need to be considered in the future, taking into account the diversity of these challenges for women's participation advancement in different industries.

V. Toward further women's participation and advancement in the labor market

The provisions of Ministerial Ordinance of the WAPA was amended in July 2022: Enterprises with 301 or more employees have now also become obliged to ascertain the state of the differences in wages between men and women in their enterprises and to publicly announce such current figures. More specifically, the enterprises in question must ascertain and publish figures showing women's average wages as a percentage of men's average wages, for all workers, regularly employed workers and non-regularly employed workers respectively. These figures are, also published with a notes column for enterprises to provide supplementary explanations on the state of the gender wage gap in their enterprises. Employers are advised to use said column to provide an explanation of why such gaps arise—an employer could, for instance, provide a note indicating that their active efforts to recruit female new graduates led to a rise in the number of young women workers with low levels of wages, in turn increasing the gender wage gap.

Gender wage gaps signify a number of different issues. Rather than focusing on gender wage gaps in terms of how high or low the figures may be, it is important to understand the mechanisms that give rise to them. The government has also already called for care to be taken when publishing data on the wage differences between men and women. As seen in this article, particularly at present the stages of women's participation and advancement differ from industry to industry. Therefore, as shown by the gender gaps in years of service and managerial positions, there are various forms of gender inequality of opportunity in the labor market. The implications derived also differ depending on whether the focus is

on average wages or the top or bottom of the wage distribution. The Labor Policy Council's Committee on Employment Environments and Equal Employment, which deliberated the publication of information on the wage disparities between men and women prior to the amendment of the Ministerial Ordinance of WAPA, noted its concerns about using average wages as a basis upon which to consider such differences.⁹ The gender wage gap as an indicator should be treated as merely one of the gauges for assessing the process of reducing this inequality of opportunity.

Will the new practice of publishing data on the differences in wages between men and women further help to facilitate the participation of women in Japanese society? The first of this data on wage differences between men and women will be based on results of the first business year to end on or after July 8, 2022, and published within around three months of the start of the following business year. The impacts of this new practice of publishing data are therefore expected to start to manifest themselves in 2023 or thereafter. While taking the aforementioned concerns into account, it is crucial to closely follow these developments in enterprises in the future.

1. In this article, "full-time workers" refers to those workers described in the 2021 *Basic Survey on Wage Structure* as *ippan rōdōsha* (ordinary workers). For the survey, "ordinary workers" are defined as those workers who are not part-time workers, where "part-time worker" refers to workers who have fewer scheduled working hours per day, or who have the same scheduled working hours per day but fewer scheduled working days per week than full-time employees at the same place of business.
2. Scheduled cash earnings are the sum of the base pay and allowances (such as job-based allowance and family allowance) determined in the work rules and other such regulations. Allowances for overtime, late night work, or work on days off are excluded.
3. A box plot is a graph presenting the overall dispersion of the data using the four quartiles and the lowest and highest values. This box plot here is referred to as a "pseudo" box plot because of the fact that the 10th and 90th percentiles are used instead of the lowest and highest values. The quartiles are the positions at which the entire distribution is divided into four equal parts when the data points are arranged from lowest to highest. The first quartile represents 1/4 from the lowest figure, the second quartile (median) is 2/4 from the lowest, and the third quartile is 3/4 from the lowest. The data portrayed as a "box" is that which falls within the range from the first to the third quartile. In other words, half

of the cases from all data take values that fall within the range of this box. The dividing line in each box represents the median (the second quartile). The lines (whiskers) on either side of each box represent the range from the first quartile to the 10th percentile and from the third quartile to the 90th percentile respectively.

4. In the first quartile, this is around 200,000 yen for men, but less than 100,000 yen for women, and in the third quartile, this is around at least 400,000 yen for men, but around 250,000 yen for women.

5. Following the enactment of the Childcare Leave Act in 1991, the Childcare and Family Care Leave Act (officially entitled the Act on Childcare Leave, Caregiver Leave, and Other Measures for the Welfare of Workers Caring for Children or Other Family Members) was enacted in 1995 to additionally include leave for providing long-term care for family members.

6. Japan's recent labor policies on women are closely connected with the policies for women spearheaded by the Cabinet Office's Gender Equality Bureau. The Gender Equality Bureau was in fact involved in the formulation of the WAPA.

7. "Proportions of managerial positions by age group" are calculated by dividing the number of people in positions at *kachō* (section heads) or equivalent and above by the total number of full-time workers for each age group respectively. Therefore, strictly speaking, this indicator differs from the percentage of women in managerial positions (calculated by dividing the number of women in positions at section heads or equivalent and above by the number of men in positions at section heads or equivalent and above) which enterprises are obliged to ascertain under the provisions of the WAPA. However, if there is an equal ratio of men to women, these two indicators mean the same. Given that the current framework for women's participation and advancement also naturally presumes the increase in the rate of employment of women, focusing on the "proportions of managerial positions by age group" would be relevant.

8. This slightly differs from the aforementioned insights of JILPT (2020). This is because the analysis in this article is limited to "university graduates working at a large private enterprise with 1,000 or more employees," and that, as noted in note 6 above, the indices adopted differ slightly.

9. The 50th *koyo kankyo kinto bunkakai* (Committee on Employment Environment and Equal Employment) of Labor Policy Council, held on June 24, 2022.

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<https://www.jil.go.jp/english/profile/tagami.html>

Main Labor Economic Indicators

1. Economy

The Japanese economy is picking up moderately, although some weaknesses have been seen recently. Concerning short-term prospects, the economy is expected to show movements of picking up, supported by the effects of the policies, under the “new normal.” However, slowing down of overseas economies is downside risk of the Japanese economy, amid ongoing global monetary tightening and other factors. Also, full attention should be given to price increases, supply-side constraints, fluctuations in the financial and capital markets and the spread of infectious diseases in China. (*Monthly Economic Report*,¹ January 2023).

2. Employment and unemployment

The number of employees in December 2022 increased by 260 thousand over the previous year. The unemployment rate, seasonally adjusted, was 2.5%.² Active job openings-to-applicants ratio in December, seasonally adjusted, was 1.35.³ (Figure 1)

3. Wages and working hours

In December, total cash earnings increased by 4.1% year-on-year and real wages (total cash earnings) decreased by 0.6%. Total hours worked decreased by 0.8% year-on-year, while scheduled hours worked decreased by 1.1%.⁴ (Figure 2)

4. Consumer price index

In December, the consumer price index for all items increased by 4.0% year-on-year, the consumer price index for all items less fresh food increased by 4.0%, and the consumer price index for all items less fresh food and energy increased by 3.0%.⁵

5. Workers' household economy

In December, consumption expenditures by workers' households increased by 2.8% year-on-year nominally and decreased by 1.9% in real terms.⁶

For details for the above, see JILPT *Main Labor Economic Indicators* at <https://www.jil.go.jp/english/estatis/eshuyo/index.html>

Notes: 1. Cabinet Office, *Monthly Economic Report* analyzes trends in the Japanese and world economies and indicates the assessment by the Japanese government. Published once a month. <https://www5.cao.go.jp/keizai3/getsurei-e/index-e.html>

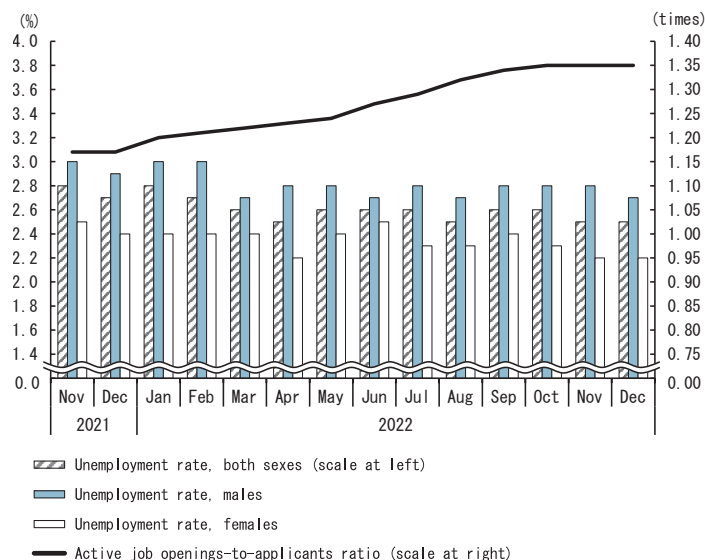
2. <https://www.stat.go.jp/english/data/roudou/results/month/index.html>

3. https://www.mhlw.go.jp/english/database/db-l/general_workers.html

4. For establishments with 5 or more employees. <https://www.mhlw.go.jp/english/database/db-l/monthly-labour.html>

5. <https://www.stat.go.jp/english/data/cpi/index.html>

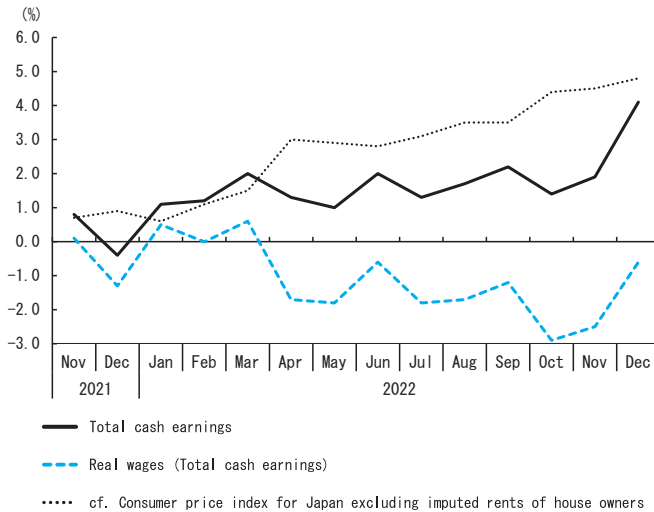
6. MIC, *Family Income and Expenditure Survey*. <https://www.stat.go.jp/english/data/kakei/index.html>



Source: Ministry of Internal Affairs and Communications (MIC), *Labour Force Survey*; Ministry of Health, Labour and Welfare (MHLW), *Employment Referrals for General Workers*.

Note: Active job openings-to-applicants ratio indicates the number of job openings per job applicant at public employment security. It shows the tightness of labor supply and demand.

Figure 1. Unemployment rate and active job openings-to-applicants ratio (seasonally adjusted)



Source: MHLW, *Monthly Labour Survey*; MIC, *Consumer Price Index*.

Figure 2. Total cash earnings / real wages annual percent change

What's on the Next Issue

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tentative

●Special Feature on Research Papers (III)

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▷ Examining Japan's Labor Standards Inspection Administration and Its Challenge from the Perspective of the Inspection Offices

▷ Labor Tribunal Proceedings: The Paradigm Shift in Labor Dispute Resolution and its Future Challenges

●Judgments and Orders

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The Senshu University (Conversion of a Fixed-Term Labor Contract to a Labor Contract Without a Fixed Term) Case
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●Statistical Indicators



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