

Japan Labor Issues

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● Special Feature on Research Papers (I)

The Shrinking Middle Class in Japan

SHINOZAKI Takehisa

TAKAHASHI Yoko

● Trends

Key topic

Promoting Labor Mobility with Support for Workers' Proactive Career Development: MHLW's White Paper on the Labor Economy 2022

● Research

Article

Changing Jobs among Middle-aged Workers in Japan: What Affects Workers' Personnel Treatment and Utilization of Skills and Knowledge at a New Job

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Special Feature on Research Papers (I)

Japan Labor Issues is pleased to present its annual special feature on research papers. The Editorial Office has selected significant papers 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 will be presented for four parts (I-IV) from this issue. They address the latest subjects or conventional themes on labor and offer useful information and deeper insights into the state of labor in Japan.

Let us start this year's special feature with a paper discussed the "middle class" in Japan in the following pages. You will find the latest analysis and perspective by the experts on changes in the proportion of the middle class in Japan in an international comparison and background of its decline in terms of the aging population and other factors.

We hereby sincerely thank all authors of those seven papers for their kind effort arranging their original papers written in Japanese, for the benefit of overseas readers.

Editorial Office, *Japan Labor Issues*

The Shrinking Middle Class in Japan

SHINOZAKI Takehisa

TAKAHASHI Yoko

This study identifies changes in the size of the middle class in Japan's population using microdata from the Ministry of Health, Labour and Welfare's *Comprehensive Survey of Living Conditions* and examines the factors behind them. It also examines policies that could help increase the proportion of the middle class based on this analysis. Between 1985 and 2018, the proportion of Japan's middle class within the national population declined. The decline was particularly large from 1985 to 2000 and stabilized from 2003 to 2018. It is confirmed that, when the range considered to be "middle class" is fixed with a particular year as a benchmark, cases in which larger declines in the proportion of the middle class can occur. An international comparison shows that the proportion of Japan's middle class is lower than the OECD average based on figures calculated from the abovementioned survey. Moreover, the declining middle class is more pronounced compared to the OECD average. However, when the statistics of the Ministry of Internal Affairs and Communications's *National Survey of Family Income and Expenditure* are used, the proportion becomes higher than the OECD average. Thus, it must be noted that the trend changes depending on the statistics used for international comparison. Behind the change in the proportion of the middle class is the fact that the proportion of households classified as the middle class is higher for households with a working member than for those without. The decrease in the share of non-retired households and the increase in the share of retired households are the main reasons for the decline in the share of the middle class in the population. Redistribution through taxes and social security has the effect of boosting the proportion of the middle class. This boosting effect is mainly evident among retired households. For non-retired households, the effect is relatively small and was smaller in 2018 compared to 1985.

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1. Introduction

In this study, we define the middle class in terms of income and uses microdata from the Ministry of Health, Labour and Welfare (MHLW)'s *Comprehensive Survey of Living Conditions* (hereafter "CSLC") to examine changes in the proportion of the middle class in Japan's households. We also identify the factors that change the proportion of the middle class, mainly in terms of working status and the aging of the population. We will also compare the results for Japan's middle class with those of other countries and clarify the characteristics of the changes in Japan's middle class.

While economic inequality between nations has decreased during the 20th and 21st centuries, domestic income inequality is increasing (Alvaredo et al. 2017), and the proportion of the middle class has been observed to be declining in many countries (OECD 2019). Causes of the decline in the proportion of the middle class include the fact that routine tasks such as clerical work and handicrafts, which are in the middle of the wage distribution, are being replaced in developed countries due to globalization and technological innovation (Goos et al. 2014) and the weakening of labor unions (Freeman et al. 2015). Concerns about the negative impact of rising income inequality and the shrinking share of the middle class on social cohesion and economic growth (Cingano 2014) have led international organizations such as the IMF, OECD, and World Bank to sound the alarm about rising income inequality and call for "inclusive growth" (OECD 2014).

In parallel with growing income disparity and the shrinking share of the middle class, a growing body of research is accumulating that examines in detail the economic and social roles played by the middle class. In polarized societies with a small middle class, overemphasis on the redistribution of resources between the upper income and the poor groups makes it difficult to reach a consensus in broad decision-making related to economic development. Conversely, it has been demonstrated that if a sizable middle class were present, it would provide sustained support for democracy (Barro 1999), reduce conflicts over the distribution of wealth between the upper income and the poor classes (Benhabib and Przeworski 2006) and social and political instability (Alesina and Perotti 1996), and promote investment in public goods such as education, health care, and infrastructure (Easterly 2001), leading to economic development. It has also been pointed out that middle class ethics emphasize saving and accumulating human capital (patience capital), which contributes to economic growth (Doepke and Zilibotti 2005, 2008). Across the board, developed countries are now paying increasing attention to the middle class as the bearer of moderate democracy and the foundation for economic development of their economies.

In Japan, on the other hand, the accumulation of research on the middle class from an economic perspective is (at least to the best of the authors' knowledge) not always sufficient. Even basic information, such as the proportion of the middle class in Japan and the background factors that change the proportion, is still lacking, although more is becoming available. Given the possibility that boosting the proportion of the middle class will become a policy issue in Japan from the 2020s onward, it is necessary to follow the lead of previous research and somehow define the middle class before accumulating more information on changes in it.

In this study, we will define the middle class based on income information and then identify changes in the proportion of the middle class in Japan's population using microdata from the MHLW's CSLC. We will clarify factors that change the proportion of the middle class from the viewpoints of working status, aging of the population, and redistribution policies.

Based on these analyses, we will examine the direction of policy support necessary to increase the proportion of the middle class. The structure of this article is as follows: Chapter 2 provides an overview of previous research that has formed a picture of the middle class from the perspective of income; Chapter 3 explains the methodology for identifying the middle class and the data used in this study; Chapter 4 presents the results of our analysis; Chapter 5 develops a discussion based in the results; and Chapter 6 discusses future issues.

2. Previous studies

As will be discussed in more detail in the next section (Chapter 3), the middle class is often identified in terms of income. This is because doing so makes it possible to estimate the entire population and obtain reliable survey results. The previous studies discussed in this chapter also define the middle class based on income rather than assets or other information.

Atkinson and Brandolini (2013) use the Luxembourg Income Study (LIS) database to compare the proportion of the middle class in 1985 and 2004 for several countries. The results showed that in 11 of 15 countries, the proportion of the middle class declined, squeezed between the rising proportions of the upper income and the lower income groups. In particular, the proportion of the middle class has fallen significantly in Finland and Sweden while it has risen in Norway, Italy, Denmark, France, and Mexico.

The OECD has published five reports on income inequality since 2008, most notably OECD (2019), which, for the first time, has a special issue on the middle class. Using data from LIS and other sources, it compares the middle class in the mid-1980s and mid-2010s and finds that the proportion of the middle class has declined in 14 of 17 countries. In Sweden, Israel, Finland, Luxembourg and Germany, the share of the middle class has fallen by more than 5 percentage points. Conversely, the proportion is increasing in only three countries (Ireland, Denmark, and France).

Derndorfer and Kranzinger (2021) compare changes in the proportion of the middle class within the EU using 2004 and 2014 data from the EU Statistics on Income and Living Conditions (EU-SILC). Of the 26 EU countries, the proportion of the middle class declined in 18 countries. The most significant decline occurred in Germany (from 48.3% to 38.8%), followed by Sweden (from 50.5% to 43.8%). The proportion of the middle class increased in Poland, Ireland, and France.

Although these three studies differ in terms of the data used, the countries analyzed, and the period covered, they confirm that the proportion of the middle class is trending downward in many countries. Results showing a large decline in the proportion of the middle class in countries such as Germany, Finland, and Sweden and an increase in countries such as France and Denmark are common to several studies.

For Japan, the MHLW (2012) estimates the proportion of the middle class using published data from the “National Survey of Family Income and Expenditure” (hereafter “NSFIE”). Result of this survey have shown that, although the proportion of the middle class did not change significantly between 1999 and 2009, the proportion of the upper income group declined and that of the lower income group increased.

Shinozaki (2015), using published data from the CSLC, shows that the proportion of the middle class declined between 1985 and 2012. During this period, the proportions of the upper income and the lower income groups continuously and gradually increased. He also points out that the proportion of the middle class declined particularly between 1985 and 2000 and has remained relatively stable since 2003. When the range of the middle class in 1985 is fixed as a benchmark, the proportion of the middle class declines until 2012, that of the upper income group peaks around 1997 and then falls, and that of the lower income group bottoms around 1997 and then rises.

Tanaka and Shikata (2019) calculate the proportion of the middle class based on microdata of the NSFIE and find that it declined slightly over the 15 years from 1994 to 2009. They also show that fixing the middle class range benchmark to 1994 results in a larger decline in its proportion in 2009.

Tanaka (2020) calculates the proportion of the middle class based on microdata from the CSLC and, like Shinozaki (2015), shows that the proportion declined over 30 years from 1985 to 2015. Tanaka (2020) also decomposes the change in the proportion of the middle class in terms of age and points out that the aging of the population has increased the proportion of those with lower incomes, which has affected the decline in the proportion of the middle class in the population as a whole.

A point that previous studies on Japan concerning the proportion of the middle class have in common is that the middle class's proportion declined from the 1980s to the end of the 1990s and has remained relatively stable from the 2000s onward. At the same time, there are differences across the studies regarding the results when the middle class range is fixed at a particular year. In addition, there is still a paucity of research on background factors behind the change in the proportion of the middle class. In our analysis in the next chapter, we will attempt to fill in the differences in the results of previous studies and clarify those background factors, especially in terms of working status and the aging of the population.

3. Method and data

3.1 Method

This section describes how we defined “middle class” in this study. Consistent with previous studies, we define the middle class based on income, in particular equivalized household disposable income (hereafter, equivalized disposable income). The middle class is the group whose income falls within a specific range based on the median income as measured by equivalized disposable income.

Specifically, the range of the middle class is defined by the following procedure. Once the middle group is defined, the groups above and below it are defined at the same time. First, the income we focus on in this study is measured at the household level; it is not income from individual-level wages, etc. The income of all household members (income before taxes and social security contributions; i.e., initial income) is added together to obtain the income of the household as a whole. Next, taxes and social insurance contributions are subtracted from this income, and social security benefits such as pensions are added to calculate disposable income at the household level. This household-level disposable income is then divided by the square root of the number of household members to obtain equivalized disposable income. In the following, when the word “income” is used without any specific reference, it basically refers to this equivalized disposable income.

Equivalized disposable income is the disposable income per household member adjusted for household size. This equivalized disposable income is allocated to all household members: in other words, all household members, including non-working household members (e.g. children, housewives), are assigned this information. The equivalized disposable incomes assigned to all citizens are sorted from the lowest to the highest, and the income of those who are exactly in the middle is defined as the median income. The proportion of the middle class is defined as the proportion of the total population of people earning between 75% (0.75 times) and 200% (twice) of the median income.

We also define the upper income group as earning 200% or more of the median income, the lower income group as earning between 50% and 75%, and the poor group as earning less than 50%. There are multiple options for where to set the threshold for each group, and it is crucial to examine not only the 200% threshold for the middle class and the upper income group but also other thresholds, such as 125% and 300% (Atkinson and Brandolini 2013). In fact, the thresholds for middle- and upper-income groups are not consistent across studies, and the results should be interpreted with caution. On the other hand, there is a general consensus among previous studies on the thresholds for the poor and the lower income groups, and the lower income and the middle income groups: 50% and 75%, respectively (Ravallion 2010).¹ The proportion of the poor group among these groups is the relative poverty rate, which is often cited in poverty studies. In this sense, middle class studies based on the methodology used in this study and poverty studies based on the relative poverty rate have the advantage of allowing comparison between each other's results.

3.2 Data description

The data used in this study are microdata from the MHLW's CSLC. The survey was first conducted in 1986, with a large-scale survey conducted every three years and smaller, simplified surveys conducted in each intermediate year. This study utilizes only the large-scale survey; the data period is 33 years, from 1986 to 2019. The income surveyed in the CSLC is income of the year before the survey year; thus, the income data obtained from the 1986 survey, for example, is for income of 1985.

In some previous studies, top coding was used to calculate the proportion of the middle class (Atkinson and Brandolini 2013); however, we do not use that method in this study. In calculating equivalized disposable income, we exclude those with unknown tax and social insurance contributions, as such amounts would make the calculation impossible. When the estimated equivalized disposable income is negative, it is converted to zero. Similar to this study, Tanaka (2020) calculated the proportion of the middle class using the microdata of the CSLC. However, the results differ very slightly because of slight differences in the samples used for the analysis.

4. Results

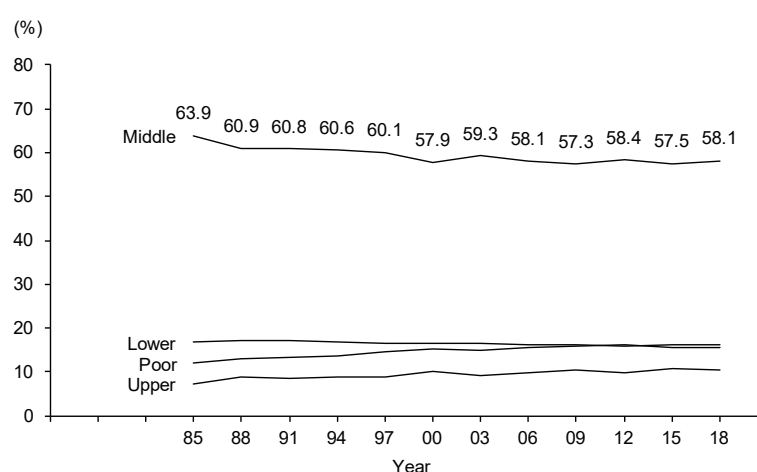
4.1 Trends in Japan's middle class

Figure 1 shows the proportions of the middle class calculated using the CSLC based on the method described in Section 3.1. It shows the proportion (of the total population) of those earning between 75% and 200% of the median income as measured by equivalized disposable income. Table 1 shows the detailed figures from Figure 1.

The proportion of the middle class declines from 1985 to 2000 and then generally remains within a two-percent point range from 2003 to 2018 (between 2003 and 2018, the lowest is 57.3% in 2009, and the highest is 59.3% in 2003). A closer review of the decline in the proportion of the middle class between 1985 and 2000 shows that the decline is not uniform; there are two periods when the proportion of the middle class declines by more than 2 percentage points over three years. The first is from 1985 (63.9%) to 1988 (60.9%), when it declines by -3.0 percentage points, and the second is from 1997 (60.1%) to 2000 (57.9%), when it declines by -2.2 percentage points. This represents a decline of 5.2 percentage points combined. Since the decline from 1985 to 2000 is 6.0 percentage points, it can be seen that the decline during the two periods accounts for about 85% of the decline from 1985 to 2000.²

The decline in the proportion of the middle class implies an increase in the proportion of the poor, the lower income, and the upper income groups outside the middle class. It can be seen that the proportion of the upper-income group increases in both periods, from 1985 to 1988 and from 1997 to 2000, when the proportion of the middle class decreases significantly. Changes in the proportions of lower income groups are relatively small. The proportion of the poor group also increased, but it increased continuously not only during these two periods but also between 1985 and 2000. In other words, from 1985 to 2000, the proportion of the poor group gradually increased while the proportion of the middle class decreased as the proportion of the upper income group increased over a very short period of time.

Would similar results be seen if the middle class range was changed? Figure 2 and Table 2 show the results we obtained when we calculated the proportion of the middle class based on several middle class ranges. Specifically, Figure 2 shows the proportions of those earning between 75% and 125%, between 75% and 150%, between 75% and 167% and between 75% and 300% in addition to the proportion of those earning between 75% and 200% of the median income (the same range as in Figure 1). Following the suggestion of Atkinson and Brandolini (2013), and for the purposes of international comparison with the results of OECD (2019) in later chapters, this study basically uses the proportion of those earning between 75% and 200% of the median income as the proportion of the middle class; however, as Atkinson and Brandolini (2013) point out, it is also essential to check middle class proportions calculated with other methods to verify the robustness of the results.



Source: Authors' calculations with microdata from the CSLC, MHLW.

Notes: 1. The middle class is defined based on equivalized household disposable income.

2. The range for each income group is as follows:

Poor: less than 50% of the median income

Lower: between 50% and 75% of the median income

Middle: between 75% and 200% of the median income

Upper: 200% or more of the median income

Figure 1. Change in proportion of population by income class in Japan (1985-2018)

Table 1. Change in the middle class (1985-2018)

	1985	1988	1991	1994	1997	2000	2003	2006	2009	2012	2015	2018
	Unit: %											
Proportion of population												
Poor	11.9	13.1	13.4	13.8	14.6	15.3	14.9	15.7	16.0	16.1	15.7	15.4
Lower	16.7	17.2	17.3	16.7	16.5	16.6	16.6	16.3	16.2	15.9	16.2	16.1
Middle	63.9	60.9	60.8	60.6	60.1	57.9	59.3	58.1	57.3	58.4	57.5	58.1
Upper	7.4	8.8	8.5	8.9	8.8	10.2	9.3	9.9	10.5	9.7	10.6	10.3
	Unit: Ten thousand yen											
Equivalized household disposable income												
50% of the median income	108	114	135	144	149	137	130	127	125	122	122	127
75% of the median income	162	171	203	217	223	206	195	190	187	183	183	190
The median income	216	228	270	289	297	274	260	254	249	244	244	253
200% of the median income	431	455	540	578	595	548	519	508	499	488	489	507

Source: Authors' calculations with microdata from the CSLC, MHLW.

Notes: 1. The middle class is defined based on equivalized household disposable income.

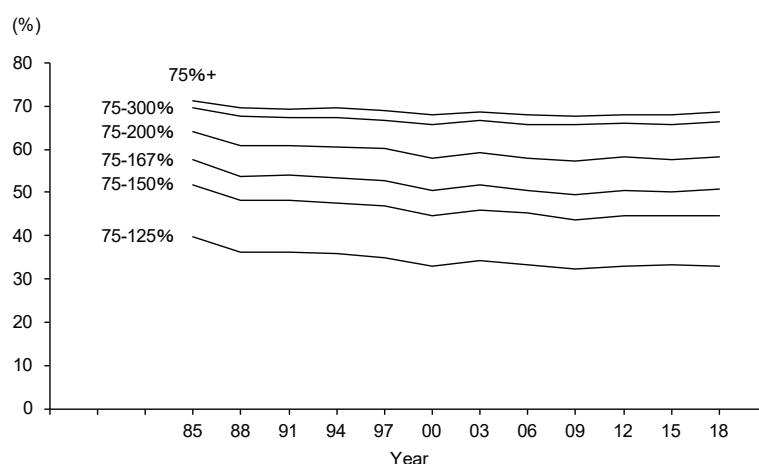
2. The range for each income group is as follows:

Poor: less than 50% of the median income

Lower: between 50% and 75% of the median income

Middle: between 75% and 200% of the median income

Upper: 200% or more of the median income



Source: Authors' calculations with microdata from the CSLC, MHLW.

Notes: 1. The middle class is defined based on equivalized household disposable income.

2. The income ranges of the middle class are as follows:

75-125%: between 75% and 125% of the median income

75-150%: between 75% and 150% of the median income

75-167%: between 75% and 167% of the median income

75-200%: between 75% and 200% of the median income (the same range as Figure 1)

75-300%: between 75% and 300% of the median income

3. The range of middle + upper-income groups is as follows:

75%+: 75% or more of the median income

Figure 2. Change in proportion of population by income class for different income ranges

Table 2. Change in the middle class for different income cut-offs (1985-2018)

	1985	1988	1991	1994	1997	2000	2003	2006	2009	2012	2015	2018
Proportion of population												
75-125%	39.9	36.3	36.2	35.8	35.0	32.9	34.4	33.4	32.3	33.0	33.3	32.9
75-150%	51.9	48.2	48.3	47.6	46.9	44.7	46.0	45.2	43.7	44.6	44.5	44.7
75-167%	57.6	53.8	54.0	53.4	52.9	50.4	51.7	50.6	49.5	50.5	50.2	50.6
75-200%	63.9	60.9	60.8	60.6	60.1	57.9	59.3	58.1	57.3	58.4	57.5	58.1
75-300%	69.7	67.6	67.3	67.5	66.8	65.7	66.7	65.8	65.6	66.0	65.7	66.4
75%	71.4	69.6	69.3	69.5	68.9	68.1	68.5	68.0	67.8	68.0	68.1	68.5
Unit: %												
Equivalized household disposable income												
75% of the median income	162	171	203	217	223	206	195	190	187	183	183	190
The median income	216	228	270	289	297	274	260	254	249	244	244	253
125% of the median income	269	285	338	361	372	343	324	317	312	305	305	317
167% of the median income	360	380	451	482	497	458	433	424	417	408	408	423
200% of the median income	431	455	540	578	595	548	519	508	499	488	489	507
300% of the median income	647	683	810	866	892	823	779	762	748	732	733	760
Unit: ten thousand yen												

Source: Authors' calculations with microdata from the CSLC, MHLW.

Notes: 1. The middle class is defined based on equivalized household disposable income.

2. The income ranges of the middle class are as follows:

75-125%: between 75% and 125% of the median income

75-150%: between 75% and 150% of the median income

75-167%: between 75% and 167% of the median income

75-200%: between 75% and 200% of the median income (the same range as Figure 1)

75-300%: between 75% and 300% of the median income

3. The range of middle + upper-income group is as follows:

75%+: 75% or more of the median income

Figure 2 shows that, regardless of which middle class range is used, relatively large declines in the proportion of the middle class occurred from 1985 to 1988 and from 1997 to 2000. It can also be seen that the proportion of the middle class rose and fell at the same time for periods other than the above two periods. In addition, the proportion of the middle class declined until 2000 and fluctuated within a certain range from 2003. It can be seen that the trend in the proportion of the middle class is not significantly affected by the setting of the middle class range.

Table 2 shows not only the middle class proportion but also the total proportions of the middle + upper income groups. Specifically, it depicts the proportion of those earning at least 75% of the median income as measured by equivalized disposable income. This figure focuses on the proportion of those earning above a certain income level as measured by equivalized disposable income. It shows that the proportion decreased by 3.3 percentage points from 1985 to 2000 and by 2.9 percentage points from 1985 to 2018.

The decline in the proportion of the middle + upper income group means an increase in the poor + lower income group, which means that the proportion of those below the middle class increased from 1985 to 2018. In addition, the increase in the proportion of the poor + lower income group is smaller than the decrease in the middle class, indicating that the proportion of the upper income group above the middle class increased from 1985 to 2018 (this is evident in Table 1).

4.2 Trends in the middle class (fixing the range of the middle class in a given year)

In the analysis in the previous section, we calculated the proportion of the middle class for each year and conducted time series comparisons after fixing the middle class range based on the median income in each year. Making time-series comparisons of the proportion of the middle class calculated in this way presents no particular problems if the value of median income does not change much over the medium to long term. However, if the value of median income changes significantly due to medium to long-term structural changes in economic activity or the effects of short-term macro shocks, time-series comparisons of the proportion of the middle class should be conducted with some caution. Suppose, for example, that a large decline in median income occurs between two-time points. If this decline in median income is caused by a compression of the entire income distribution toward zero, the proportion of the middle class may rise because more of the population is concentrated around the median income level. However, one must be cautious in interpreting this increase in the middle class proportion as an improvement in the situation of the middle class. This is because, under these circumstances, the incomes of many people, including those in the middle class, would be declining.

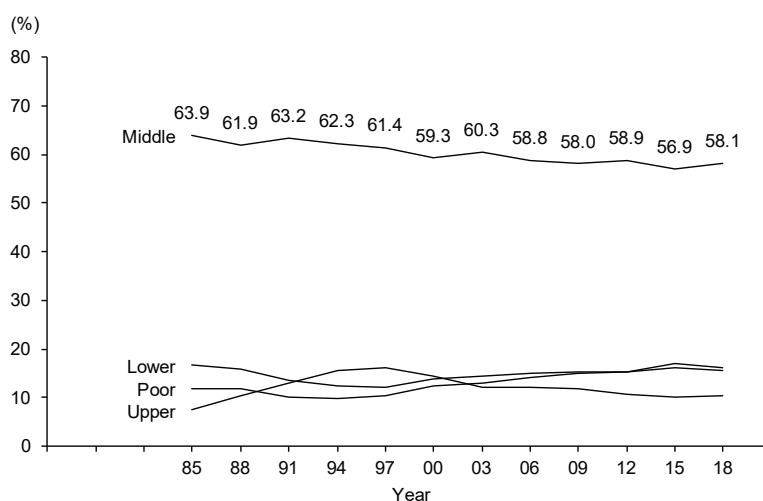
Derndorfer and Kranzinger (2021) point out that it is also important to anchor the middle class in a given year in countries that have experienced large declines in economic activity. Japan also experienced relatively large fluctuations in economic activity from the 1980s to the 2010s. In this section, we will examine the results of time-series comparisons of the proportion of the middle class in other years after fixing the middle income and the middle class ranges for a given year. Similar tests have been conducted using microdata from the NSFIE (Tanaka and Shikata 2019) or the CSLC (Tanaka 2020) and have reported different trends in the proportion of the middle class with and without fixation. In light of these studies, we set multiple years to be fixed and check whether the transition in the proportion of the middle class differs depending on the different years as an additional work in this section.

Panel A of Figure 3 shows the results we obtained by calculating the proportion of the middle class in each year after applying the 1985 middle class range to the other years (price changes have been adjusted separately). Panels B and C show the middle class proportion in each year after applying the 1997 and 2018 middle class ranges, respectively, to other years. The years 1985 and 2018 are the first and the last years for which the microdata of the CSLC are available. The year 1997 has the highest median income, as Table 1 shows. The proportion of the middle class is, as in the previous section, the proportion of those earning between 75% and

200% of median income, measured by equivalized disposable income.

Panels A and C in Figure 3 show similar results for changes in the proportion of the middle class. However, there are some differences from Figure 1. The middle class has continued to shrink not only between 1985 and 2000, but also between 2003 and 2018. In addition, the proportion of the upper-income group has been rising once, peaking in 1997 and then declining. Conversely, the proportion of the poor + lower-income groups initially declined, bottomed out in 1997, and began to increase. Although these two panels and Figure 1 share the same point of view that the proportion of the middle class fell by about 6 percentage points between 1985 and 2018, they show different trends concerning the proportion of the middle class and the proportion of the poor, the lower income, and the upper income groups during that period.

Panel B of Figure 3 shows considerably different information from Panels A and C of Figure 3 or Figure 1. In Panel B of Figure 3, the proportion of the middle class rose from 1985 to 1994 or 1997 and then continued to decline consistently through 2015. The decline in the proportion of the middle class from 1997 to 2015 is 9.8 percentage points, which is about the same as the decline in the proportion of the middle class in Figure 1 and Panels A and C of Figure 3. This is larger than the decline of about 6 percentage points from 1985 to 2018. Panel B of Figure 3 shows whether or not the middle class range is fixed in a given year—and if so, when the year fixing the range of the middle class is established—significantly affects the time series trend in the proportion of the middle class.



Source: Authors' calculations with microdata from the CSLC, MHLW.

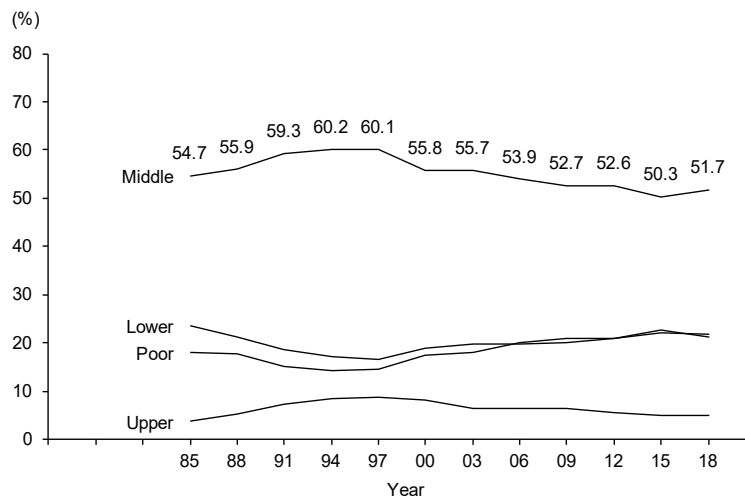
Notes: 1. The middle class is defined based on equivalized household disposable income.

2. The range for each income group is as follows:

- Poor: less than 50% of the 1985 median income
- Lower: between 50% and 75% of the 1985 median income
- Middle: between 75% and 200% of the 1985 median income
- Upper: 200% or more of the 1985 median income

3. Equivalized household disposable income was adjusted to the prices in the year in 1985.

Figure 3. Change in proportion of the middle class with a fixed range
Panel A) Based on the 1985 middle class range



Source: Authors' calculations with microdata from the CSLC, MHLW.

Notes: 1. The middle class is defined based on equivalized household disposable income.

2. The range for each income group is as follows:

Poor: less than 50% of the 1997 median income

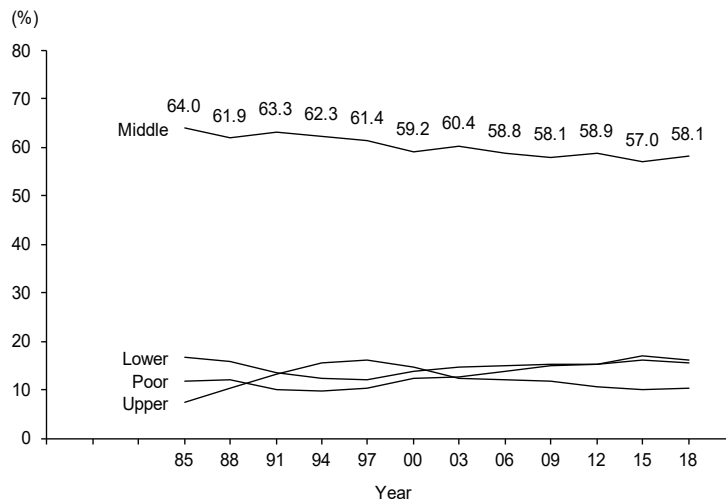
Lower: between 50% and 75% of the 1997 median income

Middle: between 75% and 200% of the 1997 median income

Upper: 200% or more of the 1997 median income

3. Equivalized household disposable income was adjusted to the prices in the year in 1997.

Figure 3. (Cont.) Change in proportion of the middle class with a fixed range
Panel B) Based on the 1997 middle class range



Source: Authors' calculations with microdata from the CSLC, MHLW.

Notes: 1. The middle class is defined based on equivalized household disposable income.

2. The range for each income group is as follows:

Poor: less than 50% of the 2018 median income

Lower: between 50% and 75% of the 2018 median income

Middle: between 75% and 200% of the 2018 median income

Upper: 200% or more of the 2018 median income

3. Equivalized householded disposable income was adjusted to the prices in the year in 2008.

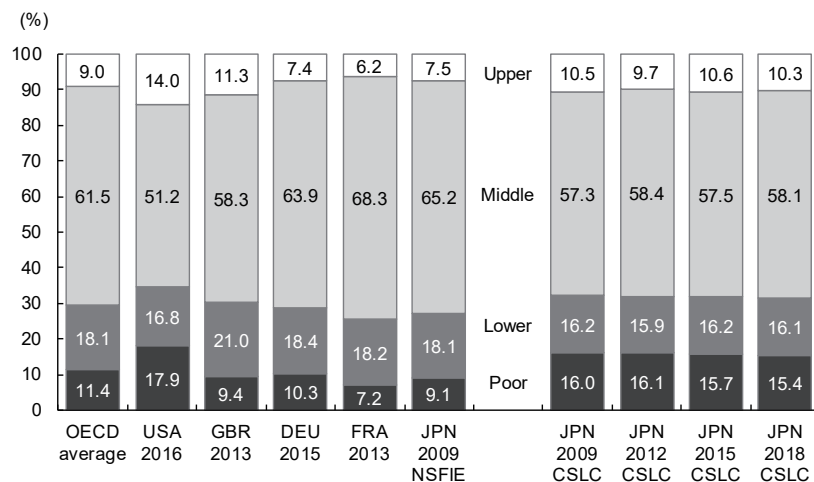
Figure 3. (Cont.)
Panel C) Based on the 2018 middle class range

4.3 Japan's middle class from an international comparison

In this section, we describe the characteristics of Japan's middle class by comparing the result obtained in the analysis of the previous section with research in other countries. While there are several prior studies on the proportion of the middle class in other countries, we use the information provided by OECD (2019) in the following. We decided to use OECD (2019) in our comparison because the average figures for OECD member countries are available, the information is not biased toward only certain regions (e.g., only Europe), and figures are available through the mid-2010s.

As in this study, the proportion of the middle class in OECD (2019) is calculated as the proportion of those earning between 75% and 200% of the median income as measured by equivalized disposable income. The method used to calculate equivalized disposable income is also the same (household-level disposable income / $\sqrt{\text{number of household members}}$). Therefore, the results of this study can be directly compared with the information provided by OECD (2019). Figure 4 shows the proportions of the poor, the lower income, the middle income, and the upper income groups in Japan and other countries in the mid-2010s. OECD (2019) provides figures for the proportion of the middle class for a total of 40 countries, of which information for four (the United States, the United Kingdom, Germany, and France) and the OECD average are shown in Figure 4.

Figure 4 also shows information on the proportion of the middle class in Japan as of 2009 taken from OECD (2019) (the graph with the series name "Japan 2009 NSFIE"). The figures for Japan as collected by OECD (2019) are calculated using microdata from the NSFIE. The figures for Japan in OECD (2019) are based on Tanaka and Shikata (2019). The NSFIE is characterized by a smaller sample with lower incomes than the CSLC (Cabinet Office 2015). Therefore, when the proportion of the poor group is calculated using the NSFIE, it is smaller than that calculated using the CSLC (Cabinet Office 2015). Since the proportion of the poor group is smaller using the NSFIE, the proportion of the middle class is expected to be larger using the NSFIE than when



Source: Left-side figures for the OECD average, the United States, the United Kingdom, Germany, France, and Japan are taken from OECD (2019), Figure 2.1. The OECD average is the average for 35 OECD countries. The values for Japan are calculated from the NSFIE, MIC. The right-side figures (for Japan) are calculated by the authors with microdata from the CSLC, MHLW.

Notes: 1. Each group is defined based on equivalized household disposable income.

2. The range for each income group is as follows:

Poor: less than 50% of the median income

Lower: between 50% and 75% of the median income

Middle: between 75% and 200% of the median income

Upper: 200% or more of the median income

Figure 4. International comparison of the middle class (mid-2010s)

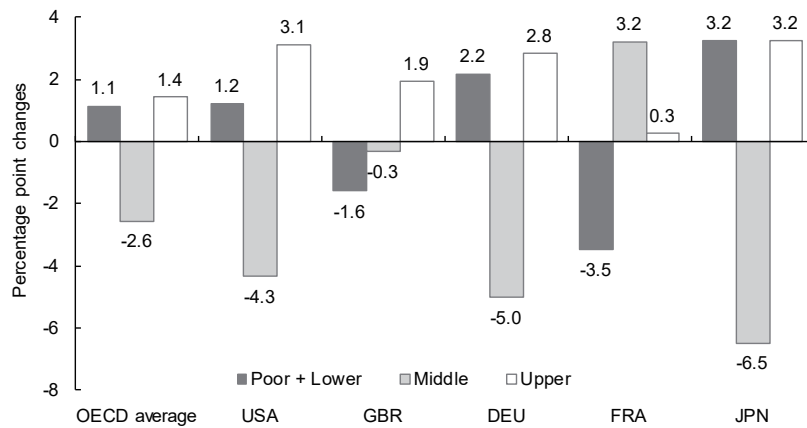
using the CSLC.

The difference between the figures for the proportion of the poor group and the middle class based on the NSFIE or the CSLC will be discussed again in later sections. It should be noted, however, that there is a divergence between the figures for the proportion of the poor group in Japan from Tanaka and Shikata (2019), those as collected by OECD (2019), and other information provided by the OECD, such as the relative poverty rate for Japan shown in OECD (2015) and the Income Distribution Database (IDD) of OECD Statistics on the web (equal to the proportion of the poor group in this study). The relative poverty rates for Japan shown in the OECD report and the IDD are calculated using the CSLC, so they naturally deviate from the results based on the NSFIE. On the other hand, for other countries, the figures for the proportion of the poor group given by OECD (2019) and the relative poverty rates given by other OECD reports and the IDD are generally consistent, given that, as noted in Section 3.1, the proportion of the middle class and the relative poverty rate figures are figures measured on the same yardstick. Calculating the figures for the middle class and the proportion of the poor group for Japan based on the CSLC has significance in that the figures are obtained in a manner consistent with the relative poverty rates (proportions of the poor group) presented in other OECD reports and by the IDD. In Figure 4, the graphs with the series name “CSLC” contain figures calculated in this study and are specifically consistent with the values shown in Figure 1 and Table 1. Figure 4 shows that the average proportion of the middle class in the 35 OECD countries in the mid-2010s is 61.5%, which is smaller than Japan’s figure based on the NSFIE (65.2%, the figure for 2009) but larger than the figure based on the CSLC (57.5%, the figure for 2015). This indicates that determination of the size of Japan’s middle class may differ depending on whether it is based on NSFIE or CSLC data.

Checking the figures by country, the smallest proportion of the middle class among the four countries cited is the United States (51.2%), while the largest is France (68.3%). Based on the NSFIE the proportion of the middle class in Japan is close to France and larger than the other three countries. Based on the CSLC, the proportion of the middle class in Japan is smaller than that of France and Germany, close to the United Kingdom (58.3%), and larger than the United States. Japan’s middle class proportion is neither extremely large nor extremely small compared to other countries, but whether it falls into a group with a larger proportion of the middle class compared to other countries depends on the statistics used.

Figure 5 shows, by country, the extent to which the proportion of the middle class has changed over the approximately 30-year period from the mid-1980s to the mid-2010s. The same four countries cited in Figure 4 and the OECD average are taken from OECD (2019). Panel A of Figure 5 shows that over the above 30-year period, the average of the 17 OECD countries saw a 2.6 percentage point decline in the proportion of the middle class and an increase in the proportion of the poor + lower income and the upper income groups. Similarly, in Japan, a decline in the proportion of the middle class and increases in the proportions of the poor + lower income and the upper-income groups have occurred, but the decline in the proportion of the middle class is larger than the OECD average. Among the four countries cited, the United States, the United Kingdom, and Germany have experienced a similar decline in the proportion of the middle class as Japan. However, the declines in all four countries are smaller than that in Japan. In OECD (2019), the countries experiencing a similar or larger decline than Japan are Finland (-5.8 percentage points), Israel (-6.7 percentage points), and Sweden (-7.4 percentage points).

Panel B of Figure 5 breaks down the 30-year changes shown in Panel A of Figure 5 into decadal changes. As can be seen from the trends in the proportion of the middle class shown in Figure 1, most of the 30-year change in the proportion of the middle class in Japan occurred from the 1980s to the 2000s. However, from the 2000s to the 2010s, the decline in the proportion of the middle class in Japan and the average of the 17 OECD countries is about the same.



Source: Figures for OECD average, the United States, the United Kingdom, Germany, and France are cited from OECD (2019), Figure 2.4. The OECD average is the average for 17 OECD countries. Values for Japan are the results of calculations by the authors performed with microdata from the CSLC, MHLW.

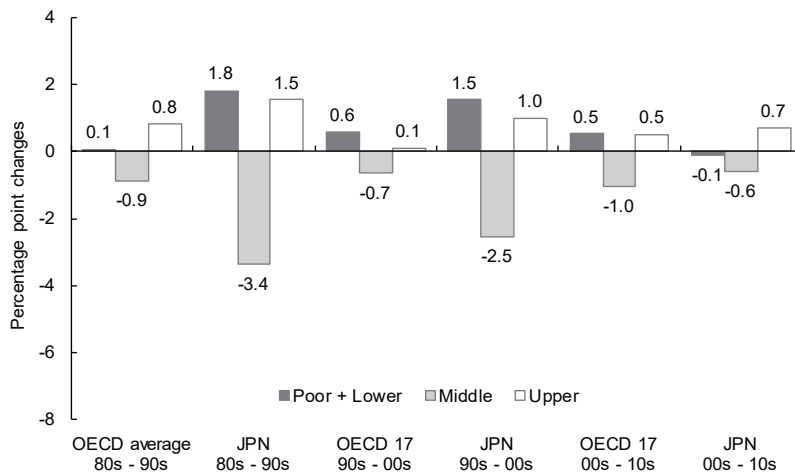
Notes: 1. The middle class is defined based on equivalized household disposable income.

2. The ranges of the poor + lower-income, middle-income and upper-income groups are as follows:

- Poor + Lower: less than 75% of the median income
- Middle: between 75% and 200% of the median income
- Upper: 200% or more of the median income

Figure 5. International comparison of change in proportion of population by income class (mid-1980s to mid-2010s)

Panel A) Change by income class



Source: The OECD average is the average for 17 OECD countries cited from OECD (2019), Figure 2.4. Figures for Japan are the results of calculations by the authors performed with microdata from the CSLC, MHLW.

Notes: 1. The middle class is defined based on equivalized household disposable income.

2. The ranges of the poor + lower-income, middle-income and upper-income groups are as follows:

- Poor + Lower: less than 75% of the median income
- Middle: between 75% and 200% of the median income
- Upper: 200% or more of the median income

3. The details of the years are as follows:

- 80s - 90s: Changes from the mid-1980s to the mid-1990s; for Japan, from 1985 to 1994
- 90s - 00s: Change from the mid-1990s to the mid-2000s; for Japan, from 1994 to 2006
- 00s - 10s: Change from the mid-2000s to the mid-2010s; for Japan, from 2006 to 2015

Figure 5. (Cont.)

Panel B) Change by decade

4.4 Relationship between working status, aging, and the middle class

When the proportion of the middle class declines and the proportion of the poor, the lower income, and the upper-income groups rises—that is, when the proportion of those with lower or upper-incomes as measured by equivalized disposable income increases—there are multiple factors behind these changes that affect income fluctuations. Typical factors alone include changes in labor income (due to the impact of technological innovation, economic fluctuations, etc.), changes associated with the aging of the population (due to decrease in the number of workers and increase in the number of retirees heavily dependent on social security benefits such as pensions, etc.), and changes in household composition (due to shift to nuclear families, increase in single-person households, changes in the number of children in the household, etc.).

Regarding changes in labor income, Yokoyama and Kodama (2019) used microdata from the MHLW's *Basic Survey on Wage Structure* and applied the Firpo, Fortin, and Lemieux (FFL) decomposition to examine wage fluctuations in the middle class. The results show that the wage decline for male employees in the middle class is due to a decrease in the return on years of experience and that an increase in the number of non-regular workers, such as part-time workers, causes the wage decline for female employees. Regarding the aging of the population, it is shown that the proportion of the middle class is lower among those aged 65 and over than among those under 65 (Tanaka and Shikata 2019, Tanaka 2020), the aging of the population from the 1980s to the 2010s exerted downward pressure on the proportion of the middle class, and from the 1980s to the 1990s, the proportion of the middle class declined among the elderly and the young and middle age, respectively (Tanaka 2020). As for the relationship with family structure, it has been shown that the proportion of the middle class is higher among married-couple households without children and among married-couple households with children than among other household types (Tanaka and Shikata 2019).

In this section, we categorize households based on several factors and examine changes in the proportion of the middle class for each household type based on the results of previous studies. Specifically, we calculate the proportion of the middle class for each of 14 household types, which are created by combining four factors: the age of the household head, the number of adults (household members aged 18 or older) in the household, the presence of children (household members aged under 18), and the number of persons working. We then identify the characteristics of each household type with respect to the middle class and compare changes in the proportion of the middle class over time. This study is unique in that it uses household typologies created by combining these elements rather than creating household typologies using each element individually, as in previous studies.

The 14 household types used in this section are those presented by OECD (2017). The 14 household types are divided into two categories based on whether the head of the household is elderly (at retirement age) or not and further divided based on the number of adults in the household, the presence of children, and the number of persons working.³ The two categories and 14 specific household types are as follows.

Households with a head of non-retirement age (18-64)

Household Type 1: Single adult, no children, working

Household Type 2: Single adult, no children, not working

Household Type 3: Single adult, with children, working

Household Type 4: Single adult, with children, not working

Household Type 5: Two or more adults, no children, at least two working

Household Type 6: Two or more adults, no children, one working

Household Type 7: Two or more adults, no children, none working

Household Type 8: Two or more adults, with children, at least two working

Household Type 9: Two or more adults, with children, one working

Household Type 10: Two or more adults, with children, none working

Households with a head of retirement age (65 and over)

Household Type 11: Single person, working

Household Type 12: Single person, not working

Household Type 13: Two or more persons, at least one working

Household Type 14: Two or more persons, none working

OECD (2017)'s household classification is intended for use in analyses of income inequality and poverty. It therefore takes a form whereby households consisting of a single parent and children, for example, which have a somewhat minor presence in terms of overall numbers and which are often the subject of consideration in studies of poverty, become one of 14 household types. Given that the main source of income for many non-retired households is labor income, the study is also designed to examine how poverty and inequality status change depending on whether or not the household is working and how many people in it are working.

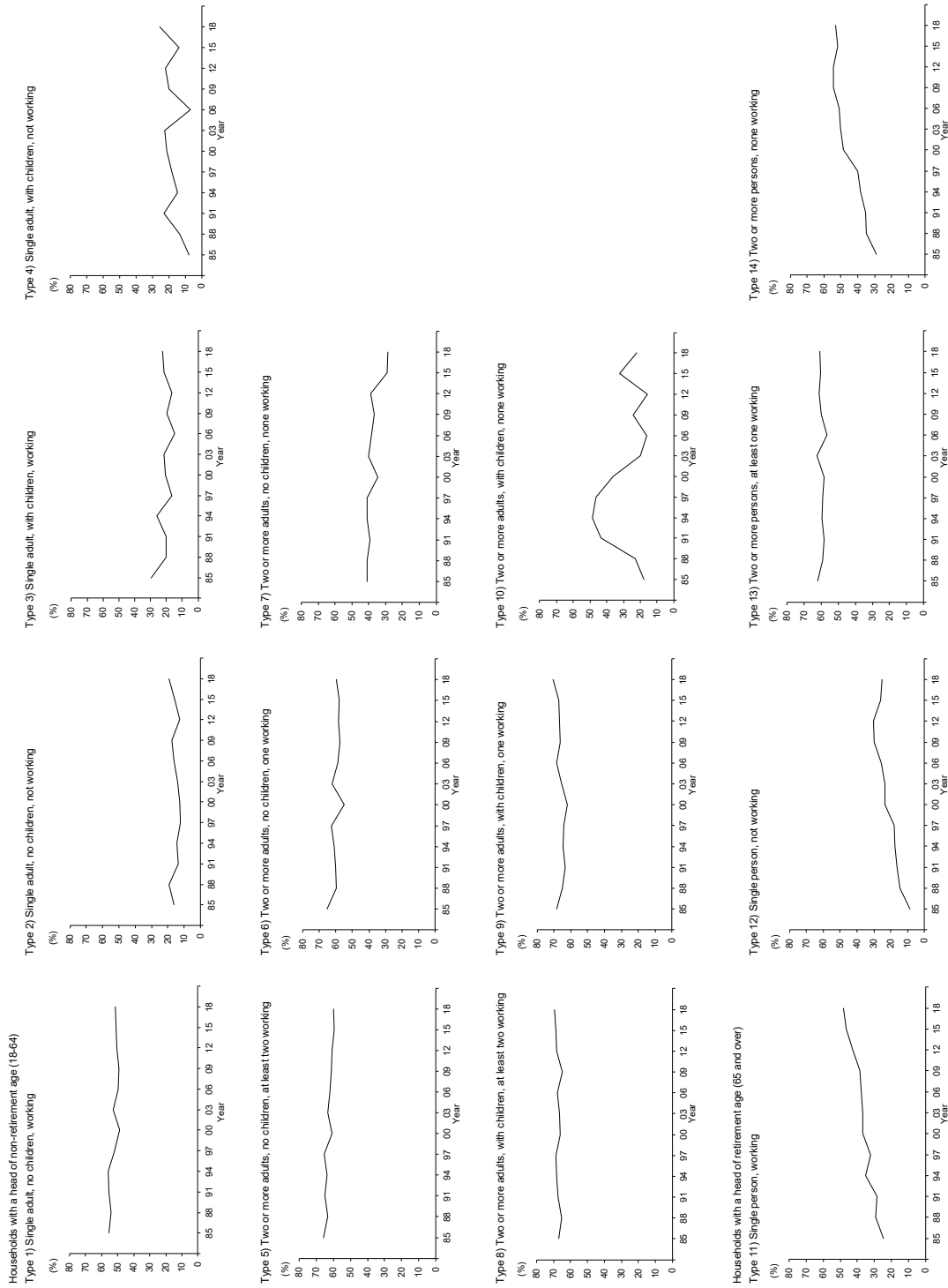
It should be noted that in using this household typology that the age information applies only to the head of the household and to the distinction between adults and children. For example, a household consisting of a 70-year-old female head of household who was widowed by her husband and a 40-year-old unmarried child who is not working would be classified as Household Type 14 in the above household categories. Of course, a typical example of 14 household types would be a retired couple with a head of household over 65 years old. However, this household type also includes somewhat irregular case of the kind described above. Such irregularities can be avoided when creating age categories based on individuals' ages, as is done in Tanaka and Shikata (2019) and Tanaka (2020). However, given that equivalized disposable income, which is normally used in studies of the middle class, income inequality, and poverty, is calculated based on households, not individuals, it may also be useful to create age groups based on the ages of heads of the household rather than individuals.

Figure 6 shows the proportion change in the middle class calculated for each of the 14 household types described above. At first glance, it can be seen that, when other factors are equal, households with a worker have a higher proportion of the middle class than households without a worker. The exception is households with one adult and children, in which there appears to be no difference in the proportion of the middle class depending on whether there is a working person or not. Comparing Household Types 5 and 6 (two or more adults with no children as common factors) and 8 and 9 (two or more adults with children as common factors) in terms of the number of workers, the proportion of the middle class is slightly higher among households with two or more workers than among households with one worker; however, the difference is not significant.

Generally, for households with a head aged 18-64, the middle class proportion remained almost the same or declined gradually between 1985 and 2018. In contrast, for households with a head aged 65 or older, we can see cases in which the middle class proportion tended to increase between 1985 and 2018 (e.g., Household Types 11, 12, and 14). With such a rise in the proportion of the middle class in some household categories, one might expect that the proportion of the middle class in the population as a whole would also rise, but in fact, as seen in Figure 1, the proportion of the middle class is on a declining trend over the medium to long term.

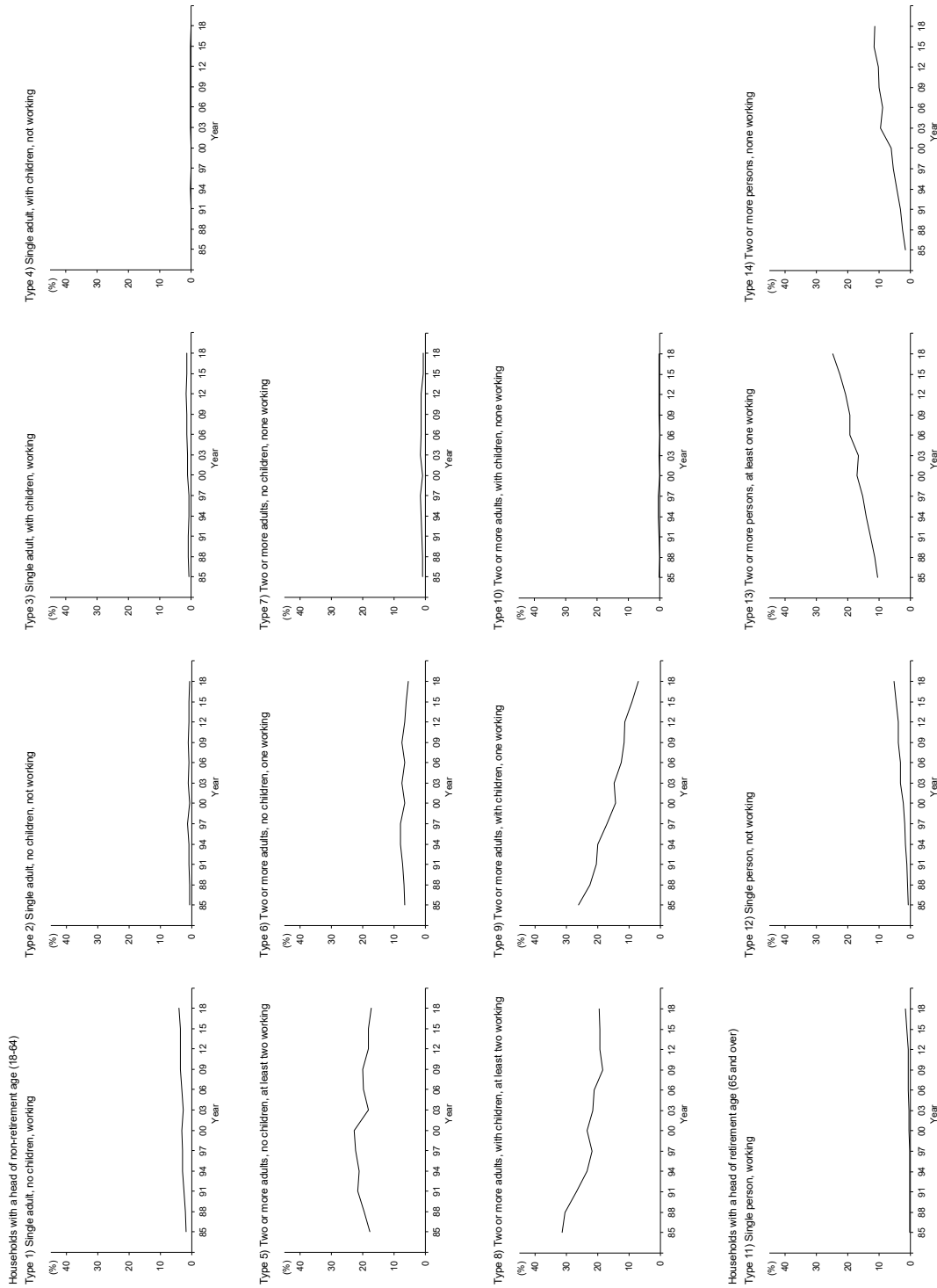
To ensure consistency between Figures 6 and 1, Figure 7 shows the share of the population belonging to each of the 14 household types in the total population. The shares of Household Types 5, 6, 8, 9, 13, and 14 are large while those of the other household types is only about 5% at most. Changes in the share of the middle class in the population as a whole are expected to depend largely on changes in the proportion of the middle class in the six household types described above, as well as on changes in the shares of the six household types.

The shares of Household Types 5, 6, 8, and 9, where the age of the head of the household is 18-65, have been declining over the medium to long term; in particular, the shares of Household Types 8 and 9 (two or more adults, with children, at least one working) have declined significantly between 1985 and 2018. As Figure 6 shows, the share of the middle class in Household Types 8 and 9 is higher than the share of the middle class in the population



Source: Authors' calculations with microdata from the CSLC, MHLW.
 Notes: 1. The middle class is defined based on equivalized household disposable income.
 2. The range of the middle class is 75% to less than 200% of the median income.

Figure 6. Change in proportion of the middle class by household type



Source: Authors' calculations with microdata from the CSLC, MHLW.

Figure 7. Change in share of each household type

as a whole, but the decline in the share of these households has put downward pressure on the proportion of the middle class in the population as a whole. On the other hand, Figure 6 shows that the share of the middle class in Household Type 13 (two or more adults, at least one working) is slightly lower than that of the population as a whole, while the share of the middle class in Household Type 14 (two or more adults, none working) is rising but still at a level lower than that of the middle class in the population as a whole. The increase in the share of Household Types 13 and 14 will put downward pressure on the middle class proportion in the population as a whole.

We use a simple decomposition to organize the effects of changes in the proportion of the middle class within each household type and changes in the share of each household type on changes in the proportion of the middle class in the population as a whole. Specifically, we decompose the change in the proportion of the middle class in the population as a whole across different time points into two effects: the effect of the change in the proportion of the middle class within each household type and the effect of the change in the share of each household type. For the proportion of the middle class R_t in year t , the change $\Delta R = R_{2018} - R_{1985}$ from 1985 to 2018 can be decomposed as

$$\Delta R = \sum_i (\Delta r_i \times \bar{s}_i) + \sum_i (\bar{r}_i \times \Delta s_i)$$

Here, r_i and s_i represent the proportion of the middle class within each household type and the share of each household type, respectively. Also, Δ is the operator representing the difference in the change from 1985 to 2018, and the superscript bar ($\bar{}$) represents the average value of the variable between 1985 and 2018. Thus, the first term on the right-hand side of the above equation represents the effect of the change in the share of the middle class among each household type, and the second term represents the effect of the change in the share of each household type.

Table 3 shows the results of decomposing the proportion of the middle class based on the above equation. The -5.8-percentage-point change in the proportion of the middle class in the total population between 1985 and 2018 is the result of a 1.5-percentage-point change in the proportion of the middle class within each household type (the effect of the first term in the equation above) offset by a -7.0-percentage-point change in the share of each household type (the effect of the second term in the equation). Note that the sum of the two effects deviates slightly from -5.8 percentage points due to rounding errors in the decomposition results.

The effect of the change in the proportion of the middle class is particularly large for Household Type 14, as seen in Figure 6. The effect of the change in the share of each household type is particularly large for Household Type 9. In Figure 7, the share of Household Type 9 declined significantly from 26.1% in 1985 to 7.2% in 2018. Although the proportion of the middle class in this household type (two or more adults, with children, one working) is higher than the share of the middle class in the population as a whole, the sharp drop in share has a negative effect on the proportion of the middle class in the population as a whole. Including this negative effect of Household Type 9 (-13.1 percentage points), a large negative share effect of -21.0 percentage points is recorded for the entire household head aged 18-64. On the other hand, for all households whose head is aged 65 and over, the share effect is significantly positive at 14.1 percentage points. The effect of the change in share for each household type seen earlier (-7.05 percentage points) is caused by this negative effect of -21.0 percentage points offset by a positive effect of 14.1 percentage points.

4.5 Relationship between redistribution and the middle class

Finally, we use this section to briefly review the impact of redistribution through taxes and social security on the proportion of the middle class. Derndorfer and Kranzinger (2021) examine 26 European countries, calculating the extent to which the proportion of the middle class changed before and after redistribution through taxes and social security and then examining whether the change increased or decreased from the mid-2000s to the mid-2010s for each country. The results show that in many European countries, the proportion of the middle class

Table 3. Decomposition of change in proportion of the middle class

	Proportion of the middle class %		Share of household types %		Change in proportion	Change in share	Effect of proportion change	Effect of share change
	1985	2018	1985	2018	85 -> 18	85 -> 18	85 -> 18	85 -> 18
All households	63.9	58.1			-5.8		1.5	-7.0
Households with a head of non-retirement age (18-64)	65.5	62.0	86.8	56.9	-3.5	-29.9	-0.5	-21.0
Type 1) Single adult, no children, working	55.3	51.2	1.8	4.1	-4.1	2.3	-0.1	1.2
Type 2) Single adult, no children, not working	16.4	19.3	0.7	0.7	2.9	0.0	0.0	0.0
Type 3) Single adult, with children, working	29.8	22.6	0.7	1.3	-7.3	0.6	-0.1	0.2
Type 4) Single adult, with children, not working	7.6	25.6	0.2	0.1	18.0	-0.1	0.0	0.0
Type 5) Two or more adults, no children, at least two working	65.6	59.9	17.9	17.5	-5.7	-0.5	-1.0	-0.3
Type 6) Two or more adults, no children, one working	65.2	60.0	6.8	5.5	-5.3	-1.3	-0.3	-0.8
Type 7) Two or more adults, no children, none working	41.1	28.5	0.9	0.7	-12.6	-0.3	-0.1	-0.1
Type 8) Two or more adults, with children, at least two working	66.8	69.6	31.5	19.6	2.8	-11.9	0.7	-8.1
Type 9) Two or more adults, with children, one working	68.5	70.4	26.1	7.2	1.9	-18.9	0.3	-13.1
Type 10) Two or more adults, with children, none working	17.9	22.0	0.2	0.2	4.0	0.0	0.0	0.0
Households with a head of retirement age (65 and over)	53.9	54.0	13.2	43.1	0.0	29.9	2.1	14.1
Type 11) Single person, working	24.5	48.3	0.2	1.7	23.9	1.4	0.2	0.5
Type 12) Single person, not working	8.7	25.2	0.8	5.2	16.5	4.4	0.5	0.7
Type 13) Two or more persons, at least one working	62.0	60.8	10.5	24.8	-1.2	14.3	-0.2	8.8
Type 14) Two or more persons, none working	29.0	53.0	1.7	11.4	24.0	9.7	1.6	4.0

Source: Authors' calculations with microdata from the CSLC, MHLW.

Notes: 1. The middle class is defined based on equivalized household disposable income.

2. The range of the middle class is 75% to less than 200% of the median income.

increased after redistribution through taxes and social security, and that in 16 of the 26 countries, the increase in the proportion of the middle class after redistribution was greater in the mid-2010s than in the mid-2000s. Ohno et al. (2021) show that the proportion of the middle class increased after tax and social security redistribution in many European countries, and in 16 of the 26 countries, the increase in the share of the middle class after redistribution was larger in the mid-2010s than in the mid-2000s. Ohno et al. (2021), after applying the same work as Derndorfer and Kranzinger (2021) to microdata from the NSFIE, show that the increase in the middle class after redistribution was greater in the mid-2010s than in the late 1980s. In this section, we apply the methods of Derndorfer and Kranzinger (2021) and Ohno et al. (2021) to the data in the CSLC to see how the proportion of the middle class changes before and after redistribution through taxes and social security and whether the effect of change due to redistribution was different between 1985 and 2018.

In calculating the proportion of the middle class before redistribution through taxes and social security, it is necessary to define the income used in the calculation. As income before redistribution, Derndorfer and Kranzinger (2021) use equivalized factor income, which is factor income divided by the root of the number of persons in the household. Factor income, as used by Derndorfer and Kranzinger (2021), is the sum of compensation of employees, private pensions, business income, property income, and remittances; in other words, it is income before taxes and social insurance contributions and before social security benefits. In the CSLC, factor income, as defined by Derndorfer and Kranzinger (2021), is referred to as “initial income.”⁴ In this section, we use equivalized initial income obtained by dividing this initial income by the root of the number of household members as the income before redistribution. We then define the proportion of those earning between 75% and 200% of the median income (as a proportion of the total population) as measured by this equivalized initial income as the proportion of the middle class before redistribution.

Table 4 shows 1985 and 2018 figures for the proportion of the middle class measured by equivalized initial

income and the proportion of the middle class measured by equivalized disposable income. We calculated the proportion of the middle class for each of the 14 household types used in the previous section. In the table, looking first at the figures for the population as a whole (the row of “Total household types”), the proportion of the middle class after the redistribution is higher than that before the redistribution, with the proportion of the middle class increasing by 6.6 percentage points in 1985 and by 12.6 percentage points in 2018. By household type, the proportion of the middle class is higher after redistribution for most household types. In addition, for the population as a whole, the incremental increase in the proportion of the middle class before and after redistribution is larger in 2018 than in 1985, and similar results can be seen in the data of the CSLC for the 16 countries in Derndorfer and Kranzinger (2021) and Ohno et al. (2021).

However, Table 4 shows that the higher proportion of the middle class after the redistribution in 2018 is due to the larger effect in the category of households whose head is aged 65 or over. For the category of households with a head aged 65 or older, the change in the proportion of the middle class before and after redistribution is 15.7 percentage points in 1985 and 26.2 percentage points in 2018, with a larger increase in the proportion of the middle class after redistribution in 2018. In contrast, for the category of households with a head aged 18-64, the change in the proportion of the middle class before and after redistribution is 5.0 percentage points in 1985 and 3.3 percentage points in 2018, with a smaller increase of 1.7 percentage points in the proportion of the middle class after redistribution in 2018. As seen in the previous section, Household Types 5, 6, 8, and 9 have the largest shares of the total population among household types with a head aged 18-64, but in Household Types 6, 8, and 9, the increase in the share of the middle class after redistribution is smaller in 2018 than in 1985. This is the reason why the increase in the proportion of the redistributed middle class is smaller in 2018 than in the previous years.

Table 4. Change in proportion of the middle class before and after redistribution

	Proportion of the middle class 1985 %		Proportion of the middle class 2018 %		Difference % point		Change of difference % point
	Initial income	Disposable income	Initial income	Disposable income	1985	2018	85 -> 18
	a	b	c	d	e = b - a	f = d - c	f - e
All households	57.3	63.9	45.6	58.1	6.6	12.6	6.0
Households with a head of non-retirement age (18-64)	60.5	65.5	58.7	62.0	5.0	3.3	-1.7
Type 1) Single adult, no children, working	51.3	55.3	52.4	51.2	4.0	-1.2	-5.2
Type 2) Single adult, no children, not working	15.5	16.4	15.5	19.3	0.9	3.7	2.8
Type 3) Single adult, with children, working	25.8	29.8	23.1	22.6	4.0	-0.5	-4.5
Type 4) Single adult, with children, not working	7.9	7.6	20.4	25.6	-0.3	5.2	5.5
Type 5) Two or more adults, no children, at least two working	58.2	65.6	51.6	59.9	7.5	8.3	0.8
Type 6) Two or more adults, no children, one working	52.2	65.2	51.6	60.0	13.0	8.4	-4.7
Type 7) Two or more adults, no children, none working	19.9	41.1	14.8	28.5	21.2	13.7	-7.5
Type 8) Two or more adults, with children, at least two working	63.0	66.8	67.3	69.6	3.8	2.3	-1.5
Type 9) Two or more adults, with children, one working	66.6	68.5	71.3	70.4	1.9	-0.9	-2.8
Type 10) Two or more adults, with children, none working	9.1	17.9	17.1	22.0	8.9	4.9	-4.0
Households with a head of retirement age (65 and over)	38.3	53.9	27.8	54.0	15.7	26.2	10.5
Type 11) Single person, working	18.6	24.5	21.9	48.3	5.9	26.5	20.6
Type 12) Single person, not working	2.2	8.7	3.4	25.2	6.5	21.8	15.3
Type 13) Two or more persons, at least one working	47.9	62.0	40.6	60.8	14.1	20.3	6.2
Type 14) Two or more persons, none working	5.1	29.0	5.8	53.0	23.9	47.2	23.3

Source: Authors' calculations with microdata from the CSLC, MHLW.

Notes: 1. The middle class is defined based on equivalized household disposable income and equivalized household initial income.

2. The range of the middle class is 75% to less than 200% of the median income.

5. Discussion

The transition of Japan's middle class

In previous studies, the proportion of the middle class was calculated by defining the middle class range based on annual median income and comparing the time series. Following this approach, it is first necessary to consider the transition of the proportion of the middle class in Japan according to the results in Figure 1 and Table 1. Figure 1 and Table 1 show that the proportion of the middle class declined from 1985 to 2000 and then remained within a certain range without any significant decline or increase. In the 30 years from 1985 to 2018, the proportion of the middle class declined, but in the 15 years since 2003, it has neither increased nor decreased.

However, as Tanaka (2020) also points out, the stable movement of the middle class proportion between 2003 and 2018 was related to a decline in middle class incomes. As discussed in Section 4.2, when the income distribution is compressed toward zero, the income of many people including the middle class will fall, even if there is no change in the middle class proportion; thus, such changes require more careful consideration.

In Section 4.2 of this study, we fixed the range of the middle class to a specific year and checked the change in the proportion of the middle class as additional verification. The results we obtained by creating three patterns of years to fix the range of the middle class in 1985, 1997, and 2018 and then checking the changes in the proportion of the middle class showed that the pattern of the proportion's rise and fall changes considerably for different years of fixation. In particular, when the middle class range was fixed at 1997, we obtained a different transition in the proportion of the middle class from Figure 1, with the proportion rising from 1985 to 1994 or 1997 and then declining by nearly 10 percentage points through 2015.

Whether to use only the proportion of the middle class determined based on annual median income or the proportion determined by fixing the range in a given year depends on the policy direction and the objectives of the study in question. The proportion of the middle class determined by fixing range would be needed, for example, in cases where the policy direction is to restore income levels that were achieved in the past and subsequently lost. Such a case would be when studying policy direction using terms such as "middle class revival" (MHLW 2012).

Comparison of the middle class in Japan and other countries

When determining the median equivalized disposable income and defining the middle class range, as in this study, the proportion of the middle class and the relative poverty rate, which is often used in poverty studies, are measured according to the same scale. In other words, the proportion of the middle class and the relative poverty rate are mutually consistent (relative poverty rate [= proportion of the poor group] + proportion of the lower income group + proportion of the middle class + proportion of the upper income group = 100).

As of 2022, the relative poverty rate for Japan shown in the Income Distribution Database (IDD) of OECD Statistics on the web is calculated based on the CSLC. The OECD's IDD figures are frequently referred to for international comparisons of relative poverty rates and income inequality levels because poverty and income inequality indicators (such as the Gini coefficient) are available for about 40 countries. In other words, many poverty and income inequality studies refer to Japan's relative poverty rate and Gini coefficient based on the CSLC. OECD (2019), cited in Section 4.3, also calculates the proportion of the middle class based on national statistics used in the IDD for many countries. In light of these circumstances, it is considered necessary to first calculate the proportion of the middle class based on the CSLC to obtain a figure consistent with the widely used Japanese relative poverty rate (= proportion of the poor group).

As we observed in Section 4.3, the proportion of the middle class in Japan based on the CSLC in the mid-2010s was smaller than the average proportion of the middle class in the 35 then-existing OECD countries during the same period. This result is consistent with the relative poverty rate based on the CSLC. In addition,

based on the CSLC, the proportion of the middle class in Japan is smaller than those of France and Germany, closer to that of the United Kingdom, and larger than that of the United States. Furthermore, if we replace the figures for Japan in OECD (2019), which is the source of the citation for Figure 4, with the 2015 figures based on the CSLC and compare Japan with 34 other countries, we find that Japan's proportion of the middle class is the 11th from the lowest overall and the second lowest among the seven advanced economies after the United States. (Its relative poverty rate [= the proportion of the poor group] is the ninth highest overall and the second highest among the seven advanced economies, after the U.S.).

Regarding the change in the proportion of the middle class, the average proportion of the middle class in the 17 then-existing OECD countries declined over the 30 years from the mid-1980s to the mid-2010s, while the proportion of the middle class based on the CSLC declined more than the OECD average over the same period. If we add the figures for Japan based on the CSLC to OECD (2019) cited in Figure 5 and compare it to the 17 OECD countries, the change in Japan's proportion of the middle class ranks third, counting from the largest negative range. As far as we can judge based on the CSLC, the proportion of the middle class in Japan falls into a relatively small group by international standards, and the proportion of the middle class declined significantly from the mid-1980s to the mid-2010s compared to other countries.

However, it is necessary to strictly separate the fact that figures based on the CSLC are often used in poverty and income inequality studies from the question of whether only figures based on the CSLC should be used. Typically, in Japan, the CSLC and also the NSFIE are the statistics applied in calculating the proportion of the middle class based on equalized disposable income. However, as Tanaka and Shikata (2019) also point out, there are statistical technical differences between the two statistics. The Cabinet Office (2015) has also identified some improvements.

When it is difficult to settle on a single statistical source for use, for example, in income inequality studies, the approach often taken is to lay out figures calculated based on multiple statistics and various indicators (e.g., inequality indicators other than the Gini coefficient) and compare them. Another approach often used is to focus on the direction of change in income inequality (i.e., whether it is rising or falling) rather than on the level of income inequality. In accordance with the above, comparing the results of the CSLC presented by this study and Tanaka (2020) and the result of the NSFIE by Tanaka and Shikata (2019) regarding the direction of change in the proportion of the middle class shows that, in both cases, the proportion of the middle class declined until the end of the 1990s and has remained stable since the 2000s. Regarding the range of change, the only figures available in Tanaka and Shikata (2019) are for the period from the mid-1990s to the end of the 2000s, so in comparing the change in figures for that period, there is a 3.3-percentage-point decline between 1994 and 2009 for the CSLC (from 60.6% to 57.3%) and a 2.1-percentage-point decline between 1994 and 2009 for the NSFIE (from 67.3% to 65.2).⁵ The proportion of the middle class declined in both cases, but the extent of the decline is about 1 percentage point.

When comparing the range of change internationally, it is necessary to match the figures presented in the CSLC and the NSFIE with those presented in OECD (2019). In OECD (2019), the 17 OECD country averages for the mid-1980s, the mid-1990s, the mid-2000s, and the mid-2010s are available, as shown in Panel B of Figure 5, so we take these figures for the mid-1990s and the mid-2000s and compare them with the results from the CSLC and the NSFIE. From the mid-1990s to the mid-2000s, the share of the middle class declined by 0.7 percentage points in the 17 OECD country average, compared to 2.5 percentage points in the 17 OECD country average (from 60.6% in 1994 to 58.6% in 2006). As discussed in Section 4.4, and as Tanaka (2020) found, in Japan, the change in the proportion of the middle class in the population as a whole has been significantly influenced by the aging of the population, as compared to the change in the proportion of the middle class in the population as a whole. Although it should be noted that the aging of the population has a significant impact on the proportion of the middle class, a comparison of the results based on the CSLC and the NSFIE and those of

OECD (2019) indicates that the proportion of the middle class declined more significantly in Japan than in other countries during the decade around the year 2000.

The relationship between working, aging, and the middle class

In the analysis in Section 4.4, we calculated the proportion of the middle class by household type and reviewed the trends. The first thing to emphasize in the results is that the presence or absence of a working person in households has a significant relationship with the high and low proportions of the middle class. In addition, this relationship can be confirmed not only for the category of households with a head aged 18-64 but also for the category of households with a head aged 65 or older. For both non-retired and retired households, the results suggest that if the policy goal is to increase the proportion of the middle class, consideration must be given to measures to promote work among those who are not working. In particular, as the population continues to age, the impact of the elderly on the share of the middle class in the population as a whole will increase, and more measures will be required to promote work among the elderly who are not at work.

It should be noted that the term “work” used here is not necessarily synonymous with employment. It includes traditional forms of work, such as self-employment and family employment, as well as non-traditional forms, such as the work of independent contractors and dependent contractors. In Japan, until the 1980s, a certain number of workers were employed as self-employed or family workers (Kambayashi and Kato 2016, Kambayashi 2017). Considering the results of Kambayashi and Kato (2016) and Kambayashi (2017), it can be inferred that self-employment and family employment are widespread among the elderly population. Similarly, Table 4 in Section 4.5 of this study shows that the proportion of the middle class based on equivalized initial income for Household Type 13 (that is, households with a head aged 65 or older, two or more adults, and at least one working) is 47.9% in 1985 and 40.6% in 2018, with the proportion being higher in 1985. This suggests that, in 1985, a certain number of elderly persons earned business income as self-employed or family workers that was higher than the amount of pensions and other social security benefits they received, and as a result, more of them fell into the middle class.

After reviewing the share of each household type in Figure 7, we confirmed that only a limited number of household types significantly affect the proportion of the middle class in the population as a whole. The aging of the population has essentially reduced the share of households with a head aged 18-64, and its influence on the proportion of the middle class in the population as a whole has also declined. However, for Household Type 8 (households with two or more adults, children, and at least two working), the decline in the share bottomed out in 2009 and has been increasing ever since, albeit only slightly. This contrasts with the share of Household Type 9 (households with two or more adults, children, and one working), which has declined since 2009.

The fact that the share of Household Type 8 has stopped declining suggests that the number of households in which both spouses work has probably increased. When considered together with the fact that the share of Household Type 9 has continued to decline and that the share of the middle class in Household Types 8 and 9 has remained relatively high, it can be inferred that there are a certain number of cases in which both spouses chose to work in order to secure more than a certain level of household income. As a result, income measured by equivalized disposable income for those households remained within the middle class range. On the other hand, households included in Household Type 9 could be considered households that are likely to remain in the middle class range based on the income of one worker alone, but such households are becoming a minority among households with a head aged 18-64. The analysis in Section 4.4 suggests that, while it is of course important to focus on raising labor income on an individual basis when considering policy measures to raise the proportion of the middle class, it is also necessary to take measures to promote an increase in overall household income by adding the incomes of married couples through the creation of an environment in which both spouses can work.⁶

The relationship between redistribution and the middle class

The analysis in Section 4.5 shows that, when viewed across the population, redistribution through taxes and social security increases the proportion of the middle class. However, most of this effect occurs in households with a head aged 65 or older, and the effect of raising the proportion of households with a head aged 18-64 is negligible. Several previous studies have pointed out that the redistributive effects of taxes and social security in Japan are particularly high for the elderly, and the analysis in Section 4.5 shows similar results. Furthermore, this boosting effect increased from the 1980s to the 2010s for households with a head aged 65 or older, while it has decreased for households with a head aged 18-64.

In Japan, the burden of social security contributions has been increasing since the start of contributions for long-term care insurance in 2000 and increases in contributions for pension insurance from the mid-2000s to the mid-2010s. This increasing burden may have led to a decline in disposable income and thus reduced the effect of increasing the proportion of the middle class. The result is a widening gap between initial and disposable income. Looking at the trends in equivalized initial and disposable income shown in Table 5, the median income of equivalized initial income in 2018 for households with heads aged 18-64 is 3,464,000 yen, and the median income of equivalized initial income in 1994 is about the same (3,457,000 yen, adjusted for 2018 base year prices). And while the equivalized disposable median income in 1994 is 3,081,000 yen, it is 2,915,000 yen in 2018, about 170,000 yen smaller. With the gap between equivalized initial and disposable income growing, equivalized disposable income is not expected to rise as much as equivalized initial income, even if equivalized initial income rises through wage increases, etc. Consequently, increases in the proportion of the middle class are expected to be smaller.

6. Conclusion

This study uses microdata from the Comprehensive Survey of Living Conditions to identify changes in the proportion of the middle class in Japan. It also examines the factors behind these changes.

From 1985 to 2018, the proportion of Japan's middle class declined. The decline was particularly large from 1985 to 2000, and remained stable within a certain range from 2003 to 2018. When the range of the middle class

Table 5. Changes in the median income before and after redistribution

(Unit: Ten thousand yen)

	Households with a head of non-retirement age (18-64)			Households with a head of retirement age (65 and over)			All households		
	Equivalized disposable income	Equivalized initial income	Difference	Equivalized disposable income	Equivalized initial income	Difference	Equivalized disposable income	Equivalized initial income	Difference
1985	255.0	270.8	-15.8	243.1	182.7	60.4	253.8	262.8	-9.0
1988	270.6	297.9	-27.3	236.8	175.4	61.4	266.1	283.5	-17.4
1991	297.3	332.2	-34.9	250.5	185.2	65.3	290.0	311.2	-21.2
1994	308.1	345.7	-37.6	264.1	187.3	76.9	300.2	321.8	-21.6
1997	317.0	348.9	-31.9	257.4	170.6	86.8	305.1	316.0	-10.9
2000	296.9	335.0	-38.1	250.4	135.3	115.1	284.4	295.3	-11.0
2003	289.9	332.7	-42.8	240.6	131.7	108.8	274.3	286.8	-12.5
2006	290.9	337.6	-46.7	227.3	99.4	127.9	269.8	280.8	-11.0
2009	289.6	323.9	-34.4	230.7	99.2	131.5	266.2	266.8	-0.6
2012	280.3	322.0	-41.7	232.6	105.6	127.1	262.2	265.5	-3.3
2015	275.3	324.4	-49.1	218.5	102.9	115.6	251.0	259.6	-8.6
2018	291.5	346.4	-55.0	216.7	106.1	110.6	255.9	266.0	-10.1

Source: Authors' calculations with microdata from the CSLC, MHLW.

Note: Equivalized disposable household median income and equivalized initial household median income are adjusted for 2018 prices.

is fixed at a particular OECD year, the decline of the proportion of the middle class becomes larger in some cases.

Comparing the proportion of the middle class internationally based on figures from the Comprehensive Survey of Living Conditions, the proportion of the middle class in Japan is lower than the OECD average. However, when the National Survey of Family Income and Expenditure is used to provide the statistics for calculating the middle class, the proportion of the middle class in Japan is higher than the OECD average. It should be noted that Japan's relationship with other countries in terms of order changes depending on the statistics used. On the other hand, regardless of which statistics are used, the decline in the proportion of the middle class is greater than the OECD average.

We examined background factors behind changes in the proportion of the middle class from the perspectives of working and the aging of the population. We confirmed that the proportion of the middle class is higher when there is a working person in the household than when there is no person working. We also found that the change in the share of the middle class in the population as a whole declined, largely due to a decrease in the share of non-retired households with a relatively high share of the middle class and an increase in the share of retired households with a relatively low share of the middle class.

Redistribution through taxes and social security has the effect of boosting the middle class's proportion. The effect is mainly large for retired households and relatively small for non-retired households. The effect for non-retired households was smaller in 2018 than in 1985.

Although, in this study, we defined the middle class mainly in terms of income and examined its time-series trends, there are other ways to define and analyze the middle class in terms of consumption and assets. We also examined working status and aging as background factors behind changes in the middle class. However, the middle class change in the relationship with labor income changes, employment status diversification, and differences in employment opportunities between urban and rural areas remains unexamined. Analyses of these matters will be the subject of future work.

This paper is basically a translation of Shinozaki and Takahashi (2023), "*Chijimu nihon no chukanso: 'Kokumin seikatsu kiso chosa' o mochiita chukan shotokuso ni kansuru bunseki*" [The Shrinking Middle Class in Japan: An analysis on the middle class using data from Comprehensive Survey of Living Conditions], JILPT Discussion Paper 23-03 (April 2023), with some additions and amendments in line with the gist of *Japan Labor Issues*. The opinions expressed in this article are the authors' own and do not reflect the view of the JILPT. The authors are indebted to the Ministry of Health, Labour and Welfare for use microdata from the Comprehensive Survey of Living Conditions. The authors thank Yoshio HIGUCHI, Akiko ONO, Akie JIBIKI, Masayuki NAKAI, and Yuki HORI for valuable comments. All errors are the authors' own.

Notes

1. See, for example, Shinozaki (2015) for a discussion of threshold setting and additional information on the benefits of defining those who fall within a certain range of median income to the middle class.
2. When the proportion of the middle class is calculated from a sample survey such as the CSLC, the figure has an error due to sampling. We estimate the standard error of the value for the proportion of the middle class to be about 0.45% (in 2018) using the bootstrap method (1,000 replications). Assuming that this value can be applied to other years, we can estimate that a difference of approximately 1.2 percentage points or more between the two values for the proportion of the middle class would be considered statistically significant (at the 5% significance level).
3. Note that OECD (2017) divides the elderly and non-elderly groups at age 66. In Japan, the starting age for old-age pension benefits is 65, and the labor force participation rate is relatively high up to age 65 and begins to decline significantly at age 65 and above. For this reason, we decided to divide household types into those under 64 and those 65 and over in this study.
4. The definition of "factor income" differs slightly across studies. For example, OECD (2008) defines factor income as the sum of compensation of employees, business income, and property income, which differs from the definition of Derndorfer and Kranzinger (2021). The latter authors' definition is close to the definition of "market income" of Atkinson et al. (1995).
5. The definition of middle class in Tanaka and Shikata (2019) uses the same definition as in this study, and their results can be compared with each other.
6. The fact that the decline in the share of Household Type 8 has stopped, together with the gradual increase in the share of high-income households when comparing 1985 and 2018 in Figure 1 and elsewhere, suggests that there may be a gradual increase in cases where both spouses are working and each has a high income, resulting in higher equivalized disposable income for the household as a whole.

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Key topic

Promoting Labor Mobility with Support for Workers' Proactive Career Development: MHLW's White Paper on the Labor Economy 2022

In September 2022, the Ministry of Health, Labour and Welfare (MHLW) published the *White Paper on the Labour Economy 2022*. Looking at the employment situation in 2021, after the COVID-19 emergency declarations and other restrictions on people's activities were lifted at the end of September, movements toward recovery were observed in terms of the number of employed persons, that of regular employees, and that of jobs offered, and a labor shortage was seen again in the labor market. On the other hand, the number of elderly persons who moved into non-labor force increased, and persons who changed jobs significantly declined as it did in 2020. Going forward, there is a call for overcoming such situation and promoting labor mobility through support for workers' proactive career development. With such awareness, the white paper analyzes the current labor situation under the theme of "Challenges in Promoting Labor Mobility through Support for Workers' Proactive Career Development." It emphasizes a possible effectiveness of career counseling or self-development in preparation for job changes across industries or job categories, indicating the tendency that workers with such preparation carry out job hunting with a clear career vision and are more satisfied with their new jobs.

I. Outlook for labor supply and demand and challenges involving labor mobility in Japan

Along with the decline in the birth rate, both the population of young people and the number of graduates from high school or higher education have

been declining after peaking in the 1990s, and in light of demographic dynamics, such declining trend is expected to continue for the time being. As a significant increase in labor supply cannot be expected in the short term, the white paper states that it will be important to promote the smooth movement of workers to sectors where there is strong labor demand by leveraging the functions of the labor market. It identifies nursing care workers as human resources that need to be secured in particular. The necessary number of nursing care workers is expected to increase from approximately 2.11 million people in FY2019 by 0.69 million to 2.8 million in FY2040. The white paper also expects that demand for IT professionals will increase in the medium to long term.

Naturally, it is difficult to meet such labor force demand only by the labor supply increase through the employment of new graduates, labor participation of women and elderly people. Previously, the government had carried out various policies to encourage women and elderly people to participate in the workforce. The white paper stated this time that it will be even more important in the future to adjust labor supply and demand through external labor markets, such as mid-career hiring. In addition, it indicates data that shows there is a "weak positive correlation" between active labor mobility (the sum of inflows and outflows of the unemployment pool as a percentage of the working-age population) and an increase in total factor productivity (TFP, productivity from factors other than labor and capital, such as the level of technology) growth or labor productivity growth. It refers to the possibility that transfer of

technology and activation of corporate organizations achieved by promoting labor mobility will lead to improvement of productivity.

II. Trends in Labor Mobility

1. Overview of Labor Mobility

No significant increase in labor mobility was observed

Looking at the trends of labor mobility in Japan using basic indicators, the accession rate of hired career-changing employees¹ (a ratio of hired career-changing employees² out of regular employees³) has remained flat at a level around 10% since 2005. The number of people who changed jobs has been on an increasing trend in the long term, while that of separated employees⁴ has remained flat in recent years. By gender, the accession rate of hired career-changing employees has been at a higher level among females than among males. Among females, the number of hired career-changing employees and separated employees has been on an increasing trend in the long term. By type of employment, both the accession rate of hired career-changing employees and the separation rate⁵ are higher among part-time workers⁶ than among full-time workers⁷, and both the number of hired career-changing employees and separated employees have been increasing among part-time workers. However, among all workers, no significant increase in labor mobility was observed by the analysis in the white paper.

The percentage of hired career-changing employees among hired employees⁸ slightly increased between 1991 and 2006 and then remained flat at a level around 60%. The percentage tends to be higher for smaller enterprises, but it has been on the rise among large enterprises as well in recent years. In 2020, it exceeded 50% for all sizes of enterprise (Figure 1). By age group, the percentage has been on an increasing trend in the long term among employees aged 60 or over, whereas it has been declining slowly since 2007 among those aged 34 or under (Figure 2). As the differences in the percentage by age group may result from changes in the population

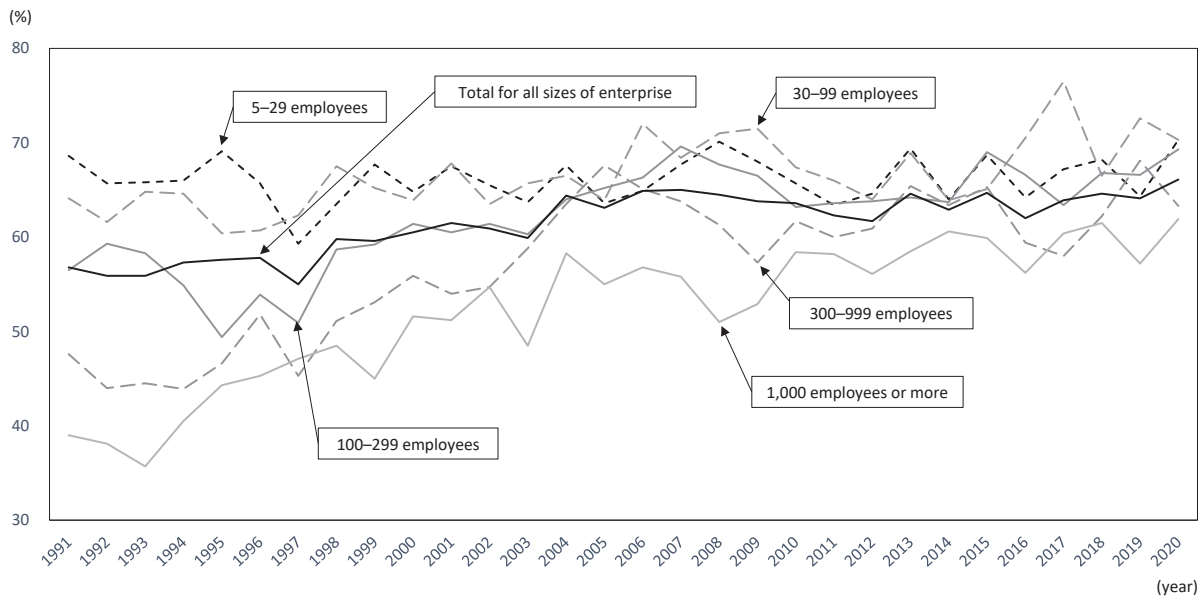
composition due to the declining birth rate and aging population, the white paper analyzes the changes in the percentage for each age group. Among those aged 35 or over, the percentage has been on an increasing trend for both sexes, and it has significantly increased among females (Figure 3).

Labor mobility across industries has slightly increased among highly educated people

The white paper points out that in order to respond to future changes in labor demand, it is important to promote labor mobility across industries or occupations. It indicates the possibility that labor mobility across industries has slightly increased among highly educated people (those who graduated from university, graduate school or higher education) both for males and females. However, it states that labor mobility across industries resulting from changing jobs does not seem to have a significant influence on changes in the allocation of labor across industries. In this respect, the white paper observes the trends in labor mobility across industries as follows. Labor mobility within the personal services business, such as “wholesale and retail trade,” “accommodations, eating and drinking services,” and “living-related and personal services and amusement services,” had remained at a relatively high level since before 2019. Labor mobility to “information and communications” and “medical, health care and welfare” from other industries has not been noticeably high. Labor mobility within the same industry is noticeably high in “information and communications,” and relatively high in “construction” and “transport and postal services.”

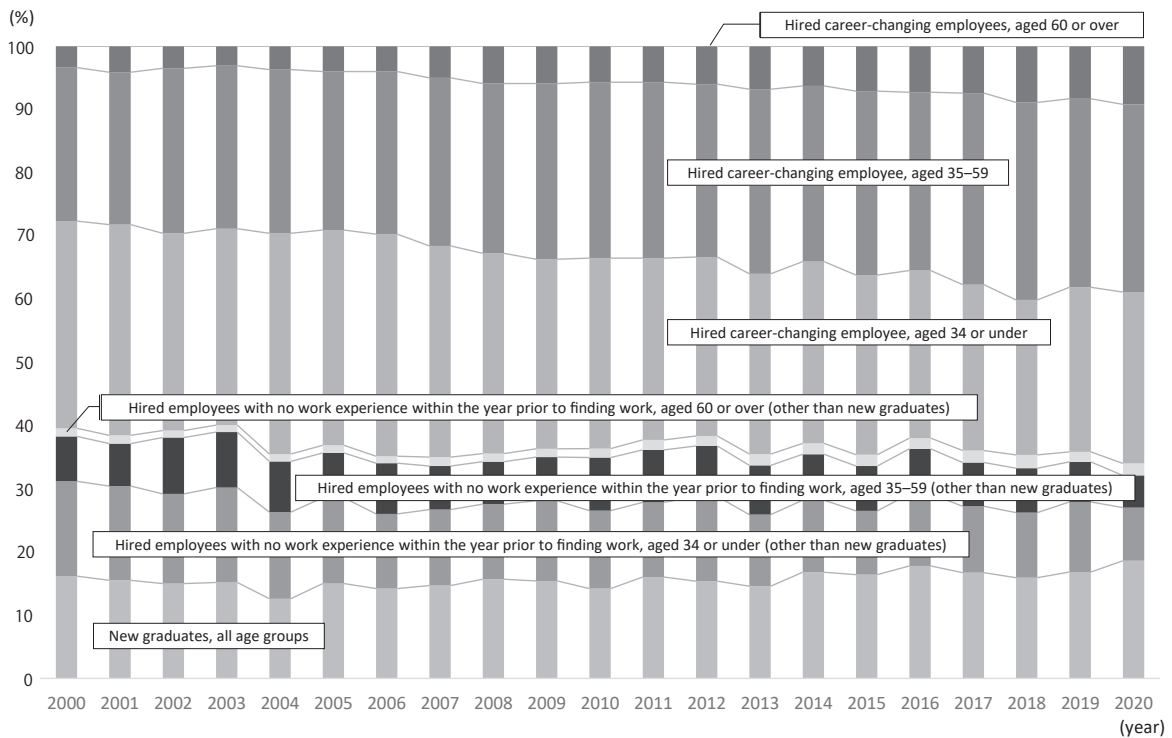
2. Actual situation of people who changed jobs

The white paper also focused on the actual situation of people who changed jobs from a micro-level perspective. According to the “National Employment Situation Panel Survey” by the Recruit Works Institute and the “Survey on Workers Who Changed Jobs 2020” by the MHLW, the percentage of those who experienced job changes is higher among females, irrespective of the form of employment. Many females change jobs for reasons



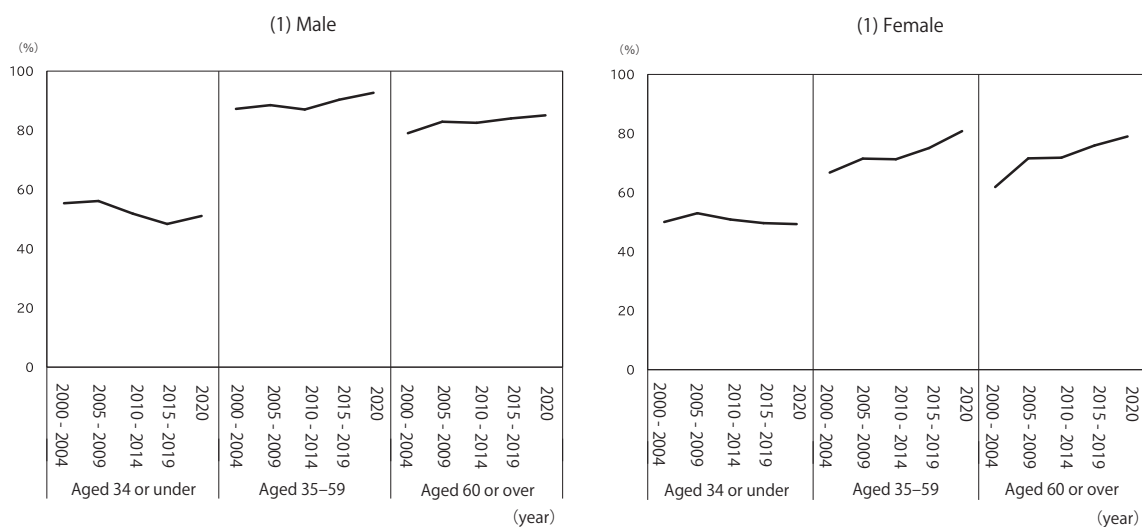
Source: Created by the Office of MHLW Director-General for General Policy and Evaluation based on MHLW's "Survey on Employment Trends."

Figure 1. Changes in the percentage of hired career changing employees among all newly hired employees, by size of enterprise



Source: Created by the Office of MHLW Director-General for General Policy and Evaluation based on MHLW's "Survey on Employment Trends."

Figure 2. Changes in the composition of newly hired employees by career and age group



Source: Created by the Office of MHLW Director-General for General Policy and Evaluation based on MHLW's "Survey on Employment Trends."

Figure 3. Changes in the percentage of hired career-changing employees among all newly hired employees by gender and age group

relating to their work styles, working environment, and family circumstances, such as "better working conditions (not including pay)" and "less frequent job relocation, easy to commute from home." In most cases, they change jobs from part-time jobs to part-time jobs. On the other hand, among males, those who cite "better opportunity to use one's talent and skills on the job" as a reason for job change account for a high proportion.

In its analysis, the white paper regards labor mobility across industries or occupations as labor mobility involving career changes. It conducted detailed analysis on how experience in the previous job affects the selection of the new job, using the "task distance" (similarity of job content) between the previous job and the new job, which is calculated based on the data available on the job information website (<https://shigoto.mhlw.go.jp/User/>) operated by the MHLW and the Japan Institute for Labour Policy and Training (JILPT).

The analysis shows that people with longer work experience switched to jobs with a shorter task distance from their previous jobs. It is suggested that those who have more work experience tend to find jobs that are similar to the jobs that they consider to

be suitable for them based on their work experience. In particular, those engaging in professional or technical jobs are more likely to move to the same or similar jobs for which they can utilize their expertise. On the other hand, even in the case of switching to jobs with a short task distance from the previous jobs, how workers change their careers differs depending on their previous work experience. For example, those who engage in clerical work are more likely to change jobs in the same job category, whereas many move between sales jobs and service jobs.

III. Factors that promote proactive job and career changes

1. Transition from seeking to change jobs to carrying out job hunting

What are the factors that promote mobility of workers based on their proactive attitude toward career formation? The white paper aggregates data from the aforementioned panel surveys conducted by the Recruit Works Institute in 2019 and 2021. It provides an overview of the trends of workers seeking to change jobs as follows. Workers seeking

to change jobs account for nearly 40% of all workers (37.6%), and among them, those who actually started job hunting account for about 15%. About 20% of those seeking to change jobs actually changed jobs within two years. Those in higher age groups are less likely to seek to change jobs. By industry, the percentages of those seeking to change jobs are high in “eating and drinking services, accommodations” and “medical, health care and welfare,” and the percentage of those who started job hunting is high in “eating and drinking services, accommodations” and “education and learning support.” By job category, the percentages of those seeking to change jobs and those who started job hunting are high among “service workers,” whereas these percentages are low among “managerial workers.”

Whether workers actually start job hunting and find new jobs may be affected by various factors, such as the circumstances at the workplace and the characteristics of workers. The percentages of those who actually started job hunting and those who found new jobs were low among regular workers, workers in middle management positions (section chief-level / division director-level positions), and male workers with children. The percentage of male workers seeking to change jobs is lower among those in middle management positions and manager-level positions than among those not in management positions, and it is lower among those with higher positions. The percentage declines as the age of their youngest child becomes higher. The percentage of workers who actually started job hunting is low among male workers whose youngest child is 15 years of age or older. The white paper also points out that the percentage of workers seeking to change jobs is higher among those who have undertaken personal development (self-developed) in advance than among those who did not do so. It also states that among workers seeking to change jobs, those who have a clear career vision are more likely to be able to actually start job hunting, and male regular workers and workers in management positions are able to change jobs more easily.

2. Career changes to different sectors

People changing their careers place importance on work-life balance

With a view to considering challenges in promoting career changes to different sectors, the white paper examines the factors on which workers who changed their careers placed importance when choosing new jobs. The result was that they tend to place importance on factors relating to work-life balance—such as “better working conditions (not including pay)” and “desire to work in one’s hometown (including U-turn-type workers *who once worked in urban area and returned to their hometown to work; the italicized added by editor*),” and the degree of satisfaction with their work life as a whole was high. Workers who changed jobs tended to be more satisfied when their objective was to advance their career, such as “higher salary,” “better opportunity to use one’s talent and skills on the job,” and “satisfaction with job assignment or the type of job.”

Promoting career counselling services and self-development

The white paper also analyzes the relationship between workers’ career vision and their satisfaction after the career change. Workers who have a clearer career vision before changing jobs are more likely to be satisfied with their new jobs, have high work engagement (responding that they were able to work vigorously) and recognize their growth. It is revealed that it is easier for those who have self-developed in preparation for a job change to find new jobs for a higher career, and they are more likely to be satisfied with their new jobs. Taking all these results into account, the white paper points out the possibility that career counseling and self-development before a career change may be important for enhancing workers’ work engagement after the career change.

Career changes and wages

The white paper also studied the association between career changes and wage changes. Workers are more likely to experience an increase in wages when they change their careers from professional or technical jobs to sales jobs or management jobs, or from service jobs or clerical jobs to professional or technical jobs or management jobs. The white paper analyzes that workers may enjoy an increase in wages if they acquire new expertise and find professional jobs or they are promoted to management positions. In addition, the rate of increase in wages after a job change is higher among workers whose score for a career vision before a career change is higher. Explaining as such, the white paper points out the possibility that workers with a clear career vision or a self-development in advance can find jobs that are suitable for them and enjoy an increase in wages.

IV. Challenges in achieving proactive career development

Workers who received career counseling are more proactive in planning their work life

The white paper analyzed the results of the “Current Status, Effects and Latent Needs of Career Counseling,” a survey conducted by the JILPT. The analysis revealed that workers who received career counseling are more proactive in planning their work life and are more satisfied with the content of their current jobs or their work life as a whole. These workers tend to change jobs more frequently and be more active in job hunting and career change. In addition, those who received counseling are more likely to think that they are competent enough to work at other companies, and among the workers thinking that way, the percentage of those who received external counseling is relatively high. Based on these trends, the white paper points out the possibility that workers are more likely to be reminded of their potential to display their vocational skills at other companies by receiving counseling and that they are able to consider their career

formation more objectively by receiving external counseling. Among both regular and non-regular workers, the proportion of those who have advanced self-development is larger if they received counseling.

Companies accepting new employees who changed jobs should provide them with education and training and treat them appropriately

The white paper indicated that in order to enable new employees who changed jobs to become adapted to the new work and workplace and display their competency, it is important for the companies that accept them to provide appropriate support, such as education and training. It aggregated the data from the survey on firms and survey on individuals conducted by the MHLW as part of the “Survey on Workers Who Changed Jobs.” As a result, it states that workers who changed their careers tend to be more satisfied with their work life as a whole as well as with their job content or job category if the companies accepting them provide them with either on-the-job training or off-the-job training.

What challenges do companies face when recruiting workers from other companies? More than 30% of the respondent companies cited the shortage of applicants for the jobs for which they need a labor force. The percentages of the companies citing the lack of objective criteria concerning ability assessment of job applicants and those citing how to determine the wage level and treatment upon recruitment are also high. Thus, many companies face challenges in terms of treatment of new employees who have moved from other companies.

The white paper points out that job seekers are more likely to face problems with the provision of more information on job offers, enhancement of job placement services, and financial assistance for career skills development or self-development. It concludes that smooth labor mobility can be promoted by preventing mismatch upon job changes and ensuring that both companies and job seekers will have no anxiety in accepting new employees and finding new jobs, respectively, through visualization of labor markets.

Verification of the effects of public vocational training programs based on evidence

The white paper looks at the efforts that are required to be made by labor and management and by government agencies. It presents the results of the detailed analysis conducted by the MHLW on the effects and challenges of public vocational training programs based on evidence, using administrative record information. Public vocational training programs are implemented at such places as public vocational abilities development institutions and private educational and training institutions as the core initiative for policy support for the unemployed, and the State and prefectures are responsible for the implementation of these programs. They serve as important safety nets in society, which help unemployed persons acquire vocational skills and find employment. The analysis results indicate in quantitative terms that it is easier for unemployed persons to find employment if they participate in public vocational training programs, irrespective of the field of training. Since 2019, MHLW has promoted evidence-based policy making (EBPM) as its unique initiative. The white paper states that this analysis provides certain policy implications regarding an ideal form of public vocational training, and at the same time, it is expected to serve as the first step for encouraging the government to make

effective use of the data they retain and make constant efforts for improvement through EBPM in the field of labor policy.

1. Accession rate of hired career-changing employees is calculated as follows:

$$\frac{\text{Number of hired career-changing employees}}{\text{Number of regular employees as of January 1st}} \times 100$$

The definitions shown in Notes 1–8 here are based on MHLW’s definitions for the “Survey on Employment Trends” (2014) provided at https://www.mhlw.go.jp/english/database/db-1/dl/employment_trends_2014_d1.pdf.

2. A hired employee with work experience within the year prior to finding work; however, this does not include side jobs or work lasting less than one month.

3. A worker who comes under any of the following categories: (a) A person employed with no defined period; and (b) A person employed for a defined period which exceeds one month.

4. A regular employee who has retired or been dismissed from an establishment during the period covered by the survey, including persons transferred to another enterprise or returning from transfer but excluding persons moving from an establishment within the same enterprise.

5. Separation rate is calculated as follows:

$$\frac{\text{Number of leaving employees}}{\text{Number of regular employees as of January 1st}} \times 100$$

6. A regular employee who has fewer scheduled hours worked per day than ordinary workers of the establishment, or who has the same scheduled hours worked per day but fewer scheduled days worked per week than ordinary workers of the establishment.

7. A regular employee who is not a part-time worker.

8. A regular employee who is newly hired by an establishment during the period covered by the survey, including persons transferred from another enterprise or returning from transfer but excluding persons moving from an establishment within the same enterprise.

Article

Changing Jobs among Middle-aged Workers in Japan: What Affects Workers' Personnel Treatment and Utilization of Skills and Knowledge at a New Job

FUJIMOTO Makoto

I. Introduction

In the government's 2019 Basic Policies for Economic and Fiscal Management and Reform ("Big Boned Policy"), the promotion of mid-career hiring of experienced workers was stated as part of the Reforms to Social Security System for All Generations. The number of full-time workers who changed jobs is on the rise, with an increasing number changing jobs to larger companies and the middle age group, which has been viewed as established compared to the younger and senior age groups.

The increase in the number of middle-aged workers changing jobs may indicate that the structure and targets of the long-term, stable employment in Japanese companies are gradually changing. In order to determine the future employment system and to promote mid-career hiring, it is necessary to understand the actual situation regarding job changes among middle-aged workers. This study sets an analytical task with the trend of job change in Japan, especially among middle-aged workers, as well as the previous studies in mind, and reanalyzes data of the "Survey on Job Change, Skill Development, and Career Formation of Middle-Aged Workers" conducted in December 2020 by the Japan Institute for Labour Policy and Training (JILPT). This article presents some of the analysis from the survey result based on 2,590 respondents (1,974 males and 616 females) who changed jobs, were 35 years old or older, and had a full-time job both currently and previously.

II. Attention to job changes and mid-career hiring with increasing trends in mid-career change

Job changes or mid-career hiring have been drawing increasing attention in recent years. In 2019, the Japanese Government set a goal of promoting mid-career hiring and employment of experienced workers together with other important policies such as securing employment opportunities up to the age of 70, as announced in the "Big Boned Policy." In 2020, the Act Partially Amending the Employment Insurance Act was enacted. Under this Act, as of April 1, 2021, enterprises with 301 or more regular employees are required to disclose the ratio of mid-career hires to total number of regular employees hired in each of the past three fiscal years. In January 2022, the Japan Business Federation (Keidanren, Japan's leading business association) recommended that enterprises promote more opportunities for career-oriented job change by "creating environments conducive to independent career development," "clarifying the types of human resources enterprises are seeking," and "expanding the number of positions available to mid-career and experienced workers" (Keidanren 2022: 41).

What are the trends in the number of mid-career hiring and job changes? The Ministry of Health, Labour and Welfare (MHLW)'s "Survey on Employment Trends" shows annual data on the number of workers changing jobs by size of enterprise, age and sex of workers, and other attributes. Here, let us examine recent trends in the mid-career hiring of full-time workers, most of

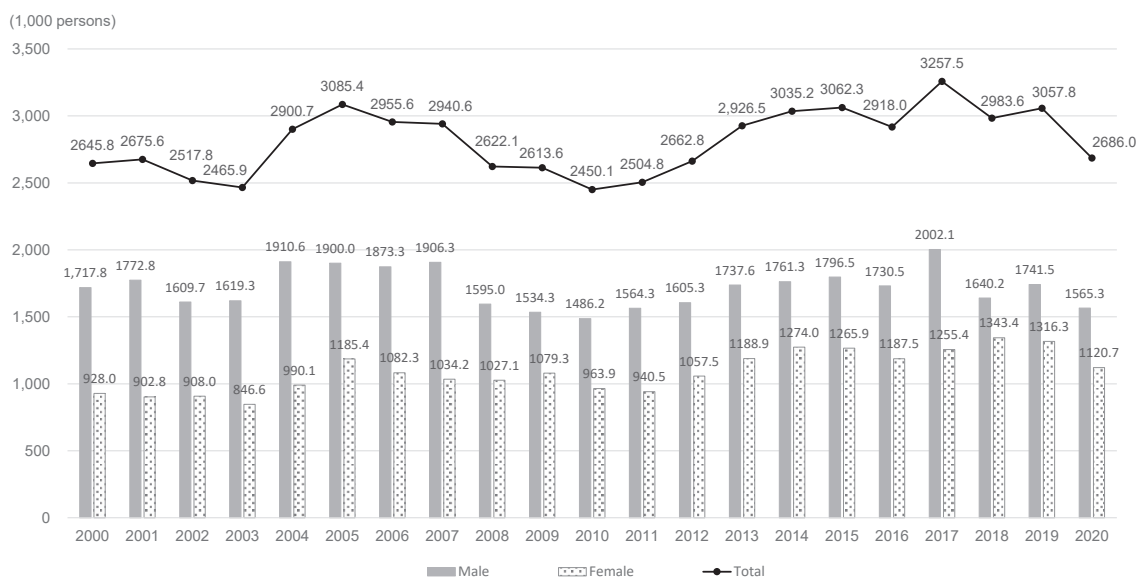
whom are regular employees. Figure 1 shows the number of full-time workers who changed jobs from 2000 onward, in total and by sex. The total number of those changing jobs rose after 2000 and remained at approximately 3 million from 2005 to 2007. The number subsequently declined due to the global financial crisis and the Great East Japan Earthquake of 2011 but began rising again in 2012. The number of those who changed jobs in 2019 was 3.06 million, an increase of about 400,000 compared to 2000.

Examining the number of workers who changed jobs by sex, we find that while the number of male full-time workers has repeatedly risen and fallen, it was in the low 1.7 million range in both 2000 and 2019, with little overall change during this period. On the other hand, the number of female full-time workers who changed jobs has been trending upward since 2000, with a particularly marked increase since 2012, rising to nearly 1.32 million in 2019, about 400,000 more than in 2000. This indicates that the increase in the total number of workers who changed jobs can largely be attributed to the increase in female full-time workers who changed jobs.

It should be noted that the COVID-19 pandemic

reduced the number of workers changing jobs, with about 180,000 fewer men and 200,000 fewer women doing so, bringing the total number of workers who changed jobs to 2,686,000, approximately the same level as in 2000. However, since 2000, there have been several instances in which the number of job changes has returned to an upward trend after falling due to economic fluctuations and other factors. Therefore, we can expect the number of workers changing jobs to rise again once the pandemic has subsided and economic activities are restored to some extent under the government's With Corona program of guidelines and countermeasures.

Job changes are increasing in the middle-aged group (35–54 years old). Let us look at numbers by age group (figures omitted). Among male full-time workers who changed jobs, the numbers of those in the 25–29 and 30–34 age groups grew significantly until 2007 and 2008, but have been shrinking since then, and the numbers in 2020 are smaller than those in 2000 for both age groups. On the other hand, the number of workers changing jobs has been trending upward in their 40s since 2000. Specifically, the number in the 40–44 age group in 2020 rose by about



Source: Ministry of Health, Labour and Welfare, "Survey on Employment Trends" (each year).

Figure 1. Numbers of full-time workers who changed jobs (2000–2020, total and by sex)

30,000 from 2000, while the number of in the 45–49 age group rose by about 16,000. As for the overall trends in the middle age group regarding male full-time workers, the weight of the job-change population under the age of 35 has been declining while that of the 40-year age group has been increasing, although it should be noted that the increase in these age groups may reflect the aging of second-generation baby boomers (born between 1970 and 1974). Meanwhile, the number of women changing jobs continues to rise across all age groups. The most significant increase has been among women in their 40s, with the annual number of those who changed jobs increasing by approximately 53,000 in the 40–44 age group and by approximately 64,000 in the 45–49 age group between 2000 and 2020. In addition, the annual number of women who changed jobs in their early 50s has increased by about 20,000 since 2019.

III. Situation of personnel treatment and utilization of skills and knowledge at new jobs

Official statistics show that the number of middle-aged workers changing jobs has been increasing in Japan in recent years. How have their personnel treatment such as the wages and salaries changed as a result of job change? Also, have they been able to utilize skills and knowledge acquired thus far in their new jobs? Let us examine the current situation based on data from the “Survey on Job Changes, Skill Development, and Career Formation of Middle-Aged Workers” conducted by the JILPT in December 2020.

Table 1 shows changes in position or job title after job change for the respondents whose employment status was regular employee both before and after the job change (n=2590). The percentage of

Table 1. Change in position before and after job change

(Unit: %)

		Total	Promoted after job change			Stayed the same		Demoted after job change		
			Given a higher-level position than that before job change	Became employee with title from rank-and-file employee	Total of “promoted”	The same level of position as before	Rank-and-file employee as before	Given a lower-level position than that before job change	Became rank-and-file employee from employee with position	Total of “demoted”
Total respondents analyzed		2,590	10.0	9.9	19.9	22.9	39.9	4.7	12.7	17.4
Male	Age 35–39	185	6.5	10.8	17.3	18.9	47.0	4.3	12.4	16.7
	Age 40–44	599	10.2	13.0	23.2	25.2	34.7	4.5	12.4	16.9
	Age 45–49	624	11.7	10.1	21.8	27.7	30.3	5.4	14.7	20.1
	Age 50–54	566	17.1	8.7	25.8	31.4	21.9	7.8	13.1	20.9
Female	Age 35–39	77	0.0	2.6	2.6	6.5	75.3	2.6	13.0	15.6
	Age 40–44	244	2.0	10.7	12.7	11.5	65.6	0.8	9.4	10.2
	Age 45–49	187	3.7	7.0	10.7	8.6	67.9	1.6	11.2	12.8
	Age 50–54	108	2.8	5.6	8.4	5.6	75.0	0.9	10.2	11.1

Source: JILPT 2022 (p.30).

those who answered that their position had risen after a job change (total of “promoted”) was the highest among males in the 50–54 age group. Overall, higher age was positively correlated with the percentage of those who promoted after job change. However, the percentage of those in the 50–54 age group who reported that their positions fell after a job change (total of “demoted”) was also higher than that of other age groups. Meanwhile, the percentage of women who promoted after a job change was lower than that of men regardless of age.

As for wages and salaries, monthly salary at the job before the latest job change was compared with current monthly salary for each respondent (Table 2). For those whose employment status was regular employee both before and after a job change, the percentage of males whose monthly wages decreased

by 5% or more after the job change was higher, and the percentage whose monthly wages increased by 5% or more was lower, the older they were. In the age group of 40 and above, the same trend was observed for women as for men.

To what extent do workers that change jobs feel that the skills and knowledge they have acquired through previous work experience are being applied in their new jobs? The results of self-assessments by those whose employment status was regular employee both before and after a job change revealed that more than three-fourths felt they “greatly utilized” or “utilized” such skills and knowledge. The percentage of males who felt they utilize their skills and knowledge at the current job increased with age, and this correlation was especially evident among those who answered “greatly utilized” (Table 3).

Table 2. Change in wage level (monthly salary) after job change

(Unit: %)

		Total	More than 20% decrease	5–20% decrease	Total of “decrease” (more than 5% decrease)	No change (less than ±5%)	5–20% increase	More than 20% increase	Total of “increase” (more than 5% increase)	Cannot be calculated
Total respondents analyzed		2,590	9.4	17.2	26.6	29.4	20.5	22.0	42.5	1.4
Male	Age 35–39	185	5.9	13.5	19.4	29.7	24.3	25.4	49.7	1.1
	Age 40–44	599	5.8	17.5	23.3	30.9	20.4	24.2	44.6	1.2
	Age 45–49	624	9.0	17.5	26.5	30.0	19.7	22.9	42.6	1.0
	Age 50–54	566	13.4	17.1	30.5	30.6	19.3	17.1	36.4	2.5
Female	Age 35–39	77	11.7	27.3	39.0	24.7	19.5	16.9	36.4	0.0
	Age 40–44	244	7.8	17.2	25.0	25.0	25.4	24.2	49.6	0.4
	Age 45–49	187	9.6	17.6	27.2	27.3	19.3	25.1	44.4	1.1
	Age 50–54	108	18.5	13.0	31.5	27.8	17.6	18.5	36.1	4.6

Source: JILPT 2022 (p.29).

Table 3. Degree of utilization of skills and knowledge at new job

(Unit: %)

		Total	Greatly utilized	Utilized	Total of "utilized"	Cannot say either way	Not utilized very much	Not utilized at all
Total respondents analyzed		2,590	30.6	45.5	76.1	14.7	5.1	4.2
Male	Age 35–39	185	24.3	43.8	68.1	19.5	7.6	4.9
	Age 40–44	599	30.4	45.9	76.3	15.5	5.2	3.0
	Age 45–49	624	33.7	46.6	80.3	13.0	3.5	3.2
	Age 50–54	566	36.0	44.0	80.0	12.4	4.6	3.0
Female	Age 35–39	77	15.6	58.4	74.0	15.6	2.6	7.8
	Age 40–44	244	26.6	42.2	68.8	16.8	7.0	7.4
	Age 45–49	187	25.1	43.3	68.4	17.1	7.5	7.0
	Age 50–54	108	25.0	49.1	74.1	13.9	5.6	6.5

Source: JILPT 2022 (p.30).

IV. Factors affecting personnel treatment and utilization of skills and knowledge at new jobs

One of the factors that affect worker's situation after a job change is how the enterprise—or the labor demand side as the totality of hiring enterprises—decide to evaluate and position workers' personal attributes such as age and sex. Some previous studies on job changes in Japan have found that the higher the age of workers, the larger the decline in wages and salaries after a job change (e.g., Abe 1996, Yugami 2001). This phenomenon reflects the way enterprises assess mid-career hires with respect to the worker's age.

The age certainly has a significant influence on the personnel treatment. However, it is also possible that differences attributable to individual workers affect their situations after a job change. Here "differences attributable to individual workers" refers to differences in, for example, experience and career, skills and abilities accumulated before the job change, and resources (social networks, opportunities, etc.) that can be utilized when seeking to change jobs. The most prominent study of how these differences affect job change outcomes is Granovetter (1995), which applies the theory of "weak ties." He

points out that workers who receive useful information from acquaintances they meet infrequently (i.e., those with whom they have weak ties) have better job change outcomes (Granovetter 1995).

In addition, research on "inter-organizational career development" suggests that activities relating to skill development and career advancement may affect job change outcomes. Inter-organizational career development is defined as "the process by which workers continuously acquire experience and skills related to their career goals as they move between organizations" (Yamamoto 2008). Yamamoto (2008) finds that subjective indicators such as job satisfaction and perception of the degree to which workers meets the employer's expectations (both at a new job), tend to be higher for workers who are confident in their future performance at a new job. This finding suggests that engaging in activities prior to changing jobs that will lead to a state of confidence in demonstrating skills at a new job has a positive impact on job change outcomes. Such activities may include those related to skill development and career formation such as independent learning, obtaining professional qualifications or licenses, and taking advantages of career consulting.

Based on these findings from the previous studies, this research analyzes job changes for middle-aged workers using data of the abovementioned JILPT survey, examining how the following three factors affect personnel treatment and skills and knowledge utilization at a new job: (1) means of gathering information on new jobs, (2) the use of job change agents and the internet, and (3) activities related to skill development and career formation.

(1) Means of gathering information on new jobs

In order to understand the means (routes or channels) by which workers seeking to change jobs obtain information about new employment opportunities, survey subjects were asked which people, organizations, and opportunities they contacted and how many times they did so. Relatively high percentages of respondents contacted “Hello Work,” the public employment security offices (49.7%), their “current employer’s website” (46.9%),

“websites other than that of [their] current employer” (32.4%), “private employment agencies” (30.9%), and “work-related friends and acquaintances” (29.1%) (Table 4). There are differences in the frequency of contact with these organizations and individuals. More than 60% of respondents who contacted Hello Work (31.9% divided by 49.7%) contacted the said offices only once, while nearly 50% who contacted private job placement agencies (14.4% divided by 30.9%) contacted the said agencies five or more times.

Among respondents who contacted other parties, only a negligible percentage contacted the “school they had formerly attended or persons related to the school” (5.1% in total of “only once,” “2 to 4 times,” and “5 or more times”), “industry or trade associations” (6.0% of the same), “parent company or affiliate of former employer” (6.6%), “client and business partner of current or former employer” (7.6%), or “parent company or affiliate of current employer” (8.2%). It can be said that the school-

Table 4. Means (routes or channels) of gathering information on new jobs by frequency of contact

(Unit: %)

	0 time (no contact)	Only once	2 to 4 times	5 or more times	Total percentage of respondents making contact
Hello Work (public employment security offices)	50.4	31.9	9.2	8.6	49.7
Printed media such as job magazines and classified on newspaper	83.5	7.1	5.1	4.2	16.4
Website of current employer	53.1	17.2	17.6	12.1	46.9
Websites other than that of current employer	67.6	7.9	11.8	12.7	32.4
Family and relatives	81.7	7.5	5.7	5.1	18.3
Work-related friends and acquaintances	70.8	11.8	11.0	6.3	29.1
Non-work-related friends and acquaintances	82.7	7.9	6.0	3.4	17.3
Job fairs	91.1	4.3	3.2	1.4	8.9
School formerly attended or persons related to the school	94.9	3.0	1.3	0.8	5.1
Industry or trade associations	93.9	2.5	2.3	1.2	6.0
Private employment agencies	69.1	6.9	9.6	14.4	30.9
Parent company or affiliate of former employer	93.4	3.2	2.3	1.1	6.6
Parent company or affiliate of current employer	91.8	4.2	3.0	1.0	8.2
Client and business partner of current or former employer	92.4	3.7	2.5	1.4	7.6

Source: JILPT 2022 (p.26).

related social contacts and contacts derived from inter-organizational relationships are not often utilized in among middle-aged workers seeking to change jobs.

(2) Use of job change agents and the internet

The use of the internet is widespread to a certain degree in job search activities. Of those analyzed, 43.4% registered on job search sites (websites of job change agents), and 23.1% used the Hello Work online service.

(3) Activities related to skill development and career formation

Regarding activities related to skill development and career formation, the survey asked the following questions: (a) whether or not they had carried out any efforts to improve their job-related skills and abilities in the three years prior to December 2020 (the time of survey); (b) whether or not they had possessed any professional qualifications or licenses; and (c) whether or not they had worked with a career consultant or career advisor during the most recent job change. 48.2% had carried out efforts to improve their job-related skills and abilities in the past three years, and 67.6% had obtained professional qualifications or licenses. Among those who indicated that they had carried out efforts to improve their job-related skills and abilities in the past three years, relatively high percentages answered that they were learning “English and other languages” and “computer operation skills and information processing techniques.” In addition, 29.5% of job seekers had contacted a career consultant or career advisor during the most recent job change.

V. Statistical analysis

Statistical analysis was conducted using a model with the following objective variables: (1) change in position before and after job change, (2) change in wages and salaries before and after job change, and (3) degree of skills and knowledge utilization at new jobs (Table 5).

Analysis of (1) change in position found that

higher frequency of contact with “work-related friends and acquaintances” when seeking to change jobs was significantly correlated with higher likelihood of a rise in position after a job change. The reason for this trend may be that said friends and acquaintances, who are familiar with the job seeker’s capability through work-related interactions, provide information about enterprises that will positively appreciate the job seeker’s performance.

In terms of activities related to skill development and career formation, “obtaining a professional qualification or license” and “working with a career consultant or advisor during the most recent job change” significantly increased the likelihood of a higher position after job change. Working with career consultants or advisors has a positive impact on position at a new job possibly because career consultants and advisors provide information and comments that may lead to new job opportunities with a higher-level position.

With regard to (2) change in wages and salaries before and after job change, a statistically significant negative correlation with contacting Hello Work is observed. It means that negative changes in wages and salaries become larger as frequency of contact with Hello Work rises. This may reflect the prevalence of situations in which new jobs are not found, visits to Hello Work increase, and as a result, new employment is found only after lowering working conditions in terms of wages and salaries. Meanwhile, there is a trend toward significant positive correlation with “job fairs,” meaning that the degree of increase in wages and salaries grows with more frequent participation in job fairs. This may indicate that repeated participation in job fairs helps in finding employers that offer better wages and salaries. In addition, there is a trend toward statistically significant positive correlation between “obtaining a professional qualification or license” and degree of change in wages and salaries. This finding suggests that possessing occupational qualifications and licenses may increase the market value of middle-aged workers seeking to change jobs.

Analysis with (3) degree of skills and knowledge utilization as the objective variable found a

Table 5. Statistical analysis of changes in personnel treatment and degree of skills and knowledge utilization at new jobs (with regard to activities related to information gathering and skills development/career formation)

	Change in position (Objective variable: whether or not worker's position rose)		Wage change (Objective variable: monthly salary change rate)		Degree of skills and experience utilization (Objective variable: degree to which skills and experience are utilized at new job)	
	B	Exp(B)	β	t-value	B	Wald
[Means of gathering information on new jobs]						
Hello Work (public employment security offices)	-0.111	0.895	-0.069	-2.469*	-0.057	0.965
Printed media such as job magazines and classified on newspaper	-0.038	0.963	0.006	0.265	0.011	0.035
Website of current employer	-0.017	0.983	0.003	0.115	0.048	1.018
Websites other than that of current employer	0.018	1.018	-0.014	-0.502	0.065	1.773
Family and relatives	-0.062	0.94	-0.006	-0.267	-0.028	0.23
Work-related friends and acquaintances	0.206	1.229**	0.000	-0.006	0.142	7.879**
Non-work-related friends and acquaintances	-0.002	0.998	0.007	0.272	-0.062	0.891
Job fairs	0.179	1.196	0.043	1.698+	-0.281	8.609**
School formerly attended or persons related to the school	-0.011	0.989	0.026	0.880	-0.049	0.099
Industry or trade associations	0.098	1.103	-0.031	-1.098	0.285	5.601*
Private employment agencies	-0.077	0.296	0.005	0.207	0.131	8.94**
Parent company or affiliate of former employer	-0.075	0.927	-0.038	-1.339	-0.322	7.405**
Parent company or affiliate of current employer	0.215	1.239	0.005	0.207	0.134	1.58
Client and business partner of current or former employer	0.046	1.047	0.017	0.666	0.099	0.993
[Use of Internet]						
Registered with a job search site (direct apply type)	0.023	1.023	-0.014	-0.599	0.162	2.269
Registered with a job search site (agent type)	-0.022	0.978	-0.044	-1.609	0.052	0.208
Registered with a job search site (scout type)	0.248	1.282	-0.027	-1.112	-0.145	1.416
Hello Work online service	-0.347	0.707+	0.002	0.069	-0.005	0.002
[Activities related to skill development/career formation]						
Efforts to improve job-related skills and abilities (in the past 3 years)	0.191	1.211	-0.007	-0.337	0.414	24.448***
Obtained professional qualification or license	0.316	1.372*	0.042	1.927+	0.533	35.242***
Worked with career consultant/advisor during the most recent job change	0.351	1.421*	0.012	0.465	0.088	0.619

**<.001 **<.01 *<.05 +<.1

Source: JILPT 2022 (pp.33-37).

statistically significant positive correlation between frequency of contact with work-related friends and acquaintances and degree of skills and knowledge utilization. As with the correlation for change in

position, it appears that interaction with work-related friends and acquaintances who are familiar with the job seeker's abilities is likely to lead to discovery of new jobs where workers can utilize their skills and

knowledge. In addition, more frequent contact with “private job placement agencies” and “industry or trade associations” is also statistically significantly correlated with greater utilization of skills and knowledge at new jobs. It can be said that more interaction with private job placement agencies leads to workers being likelier to find new jobs where they can make better use of their skills and knowledge.

VI. Concluding

In Japan, middle-aged workers who have acquired professional skills through years of work experience are increasingly changing jobs. Both enterprises and the government, which develops labor market policies, have been taking a great interest in how actively the middle-aged could work at new jobs and how their working conditions would be considered. The above analysis indicates that the means of information gathering on new jobs (IV (1) above) and whether or not having carried out activities related to skill development and career formation ((3) above) have an impact on job change output and personnel treatment at new jobs.

How far would these activities that lead to active working life and better personnel treatment at new jobs spread through the initiatives of enterprises and the government? Would such initiatives of enterprises and the government motivate middle-aged workers to change jobs? Finally, would the increase in job changes among middle-aged workers possibly shift the traditional way most Japanese enterprises have

secured human resources, which is based on hiring new graduates or the young and training them over a long period of time? From these points of view, it is worth noting the trends in job changes among middle-aged workers in Japan.

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Commentary

Can a Client Be Held Liable for a Breach of Obligation to Care for Employee Safety and Health Due to Harassment against a Freelancer?

The *Amour (Aesthetic Salon) and Other Defendant Case*
Tokyo District Court (May 25, 2022) 1269 *Rodo Hanrei* 15

TAKIHARA Hiromitsu

I. Facts

Plaintiff X, a woman born in 1995, has operated her own website (hereinafter referred to as “X’s website”) in March 2019, calling herself a beauty writer or cosmetic concierge. After her graduation from university and until the end of July 2019, X engaged in part-time work (*arubaito*, a term originally used for student part-time work, but now used to cover any work on a casual basis that does not fit into any other categories) to write articles that were supposed to be posted on websites of beauty-related businesses, such as aesthetic salons. Although X thought of making her living as a freelance beauty writer in the future, she has not had a job from which she would earn a fixed amount of monthly income as a beauty writer.

Company Y (hereinafter, Y1) engages in operating an aesthetic salon and other businesses, and it operates a salon named *Kintore Esthe* (hereinafter, the “Salon”). The aesthetic salon offers hand and machine treatments exclusively for female customers. At the Salon, the man who founded Y1 and served as its representative (hereinafter, Y2) provided treatments to all customers.

On March 9, 2021, using an inquiry form available on X’s website, Y2 sent an email to X, asking her to receive treatment at the Salon and write an article about her experience to be posted on Y1’s website (hereinafter, “Y1’s website”). Through negotiation on particulars such as the unit price per

character and the number of characters in the article, Y2 reached an agreement with X that: X would write an article on her experience at the Salon and post it on Y1’s website; X would post the same article on X’s website; and X and Y2 would have a meeting at the Salon on March 20 to discuss the content of the article. On that day, X and Y2 met each other for the first time at the Salon, discussed the content of the article to be written by X, and agreed that she would write an article by comparing her experience at the Salon with her experience at other salons (hereinafter, the “Article”). On this occasion, Y2 asked X questions about her past sexual experience and masturbation.

Several times on March 28 and other days, X received treatment by Y2 at the Salon, without paying a fee to Y2. When providing treatment, Y2 requested X to show her breasts to him; touched her private parts several times and had her touch them herself as he requested; and further requested her to touch his genitals. In addition, at the time of the meetings, held several times, Y2 demanded that X kiss him, saying that he would take her dinner if she allowed him to have sex with her; ordered her and another woman to take off their tops and touch each other’s breasts; and made her stand up and pressed his crotch against her buttocks, saying that this was necessary for training her pelvic floor muscles, even though X was crying.

On April 23, 2019, X posted the Article on X’s website. On April 28, Y2 made a proposal to X to have her write articles for the purpose of SEO (search

engine optimization; measures to ensure that Y1's website would come up on the top page of the search results when internet users search certain keywords on a search engine) every day as Y1's exclusive writer and post these articles on Y1's website. After that, X and Y2 continued communication to discuss terms and conditions. Y2 explained to X that a service contract would be signed for a period of up to six months, although it may be terminated immediately if the proposed scheme failed to be successful, and that there was also a possibility that X would be appointed as an executive officer or regular employee of Y1.

From August 1 to 31, while receiving instructions from Y2 on the content of articles, X created a column article by taking SEO measures and posted it on Y1's website once every day. In addition, X refined Y1's website by analyzing websites of competing aesthetic salons and advertised Y1's website on twitter and other social media.

On August 31 and onwards, while communicating with X, Y2 told her that he would terminate the contact with her because the quality of the articles she had written were low.

In late October 2019, X consulted with the *Shuppan Nets* (a union of publishers network affiliated with Japan Federation of Publishing Workers' Unions) about the damage she had suffered, such as Y1 having not paid her fees for her services and Y2 having touched her private parts, and she joined the *Shuppan Nets*. On November 14, 2019, the *Shuppan Nets* requested for collective bargaining with Y1. At the first session of collective bargaining held on December 16, 2019, Y2 denied the conclusion of the service contract and refused to pay fees to X, and after that, deleted a large part of the column articles posted by X on Y1's website.

On January 16, 2020, X visited a mental health clinic and complained that she had continued to have insomnia and other symptoms since around October 2019. On February 8, 2020, she was found to have symptoms such as insomnia, depressive mood, a lack of concentration, palpitations and shivering when thinking about her job for Y1, and was diagnosed as needing outpatient treatment for the time being.

In the second session of collective bargaining held on February 21, 2020, Y2 stated that no column article written by X had been posted on Y1's website, but after that, he stated that X had posted her column articles on Y1's website without permission, so he deleted these articles. Y2 also stated that X had created accounts for Y1 on Twitter, etc. and posted updates on these accounts although Y1 had not asked her to do so. In addition, Y2 demanded X to pay 350,000 yen as a fee for the treatment she had received at the Salon.

On March 9, 2020, the process attorneys for X filed claims against Y1 to seek consolation money due to sexual harassment by Y2 against X, and the unpaid amount of fees owed to X for her work.

II. Judgment

1. Whether X has a claim to seek fees for her services under the Service Contract

Since June 2019, X and Y2 repeatedly held specific discussions on the content of the services that Y1 would entrust X to perform and the amount of fees to be paid to her. On July 1, 2019, they prepared a draft contract based on what they had discussed until then, and from August 1, 2019, X actually performed the services while confirming the intention of Y2. In light of these facts, it is appropriate to find that by around July 1, 2019, a service contract (hereinafter, the "Service Contract") had been formed between X and Y1 to the effect that X would begin the services from August 2019 and that Y1 would pay her 150,000 yen as a monthly fee.

It is appropriate to find that the Service Contract has the nature of a quasi-mandate contract mainly for providing services.

According to the above, X has a claim against Y1 to seek 382,258 yen in total as the fees based on the Service Contract, which consists of 150,000 yen as the fee for August 2019, 150,000 yen as the fee for September 2019, and 82,258 as the fee for the period from October 1 to 17, 2018 (150,000 yen / 31 days × 17 days).

2. Whether there was harassment against X, committed by Y2 and whether it constitutes a tort

In this case, it is found that Y2 behaved as follows: (i) on March 20, 2019, when Y2 had a meeting with X at the Salon, he asked her questions about her sexual experience and masturbation; (ii) on March 28, on the occasion of the first treatment at the Salon, Y2 requested X to show her breasts to him, saying such things as that the treatment would tickle less if she was naked even against her will; (iii) on June 3, 2019, after X received the sixth treatment at the Salon, Y2 instructed her to take off the paper underwear used for treatment, touched her private parts three times, and then had her touch them herself as he requested, and he further requested her to touch his genitals; (iv) on June 17, when Y2 had a meeting with X at the Salon, he demanded that she kiss him, saying that he would take her dinner if she allowed him to have sex with her, and he touched her waist and pressed his crotch against her buttocks; (v) on August 31, 2019, Y2 told X that he would terminate the contact with her because the quality of the articles she had written were low, and sent her messages that he was disappointed to learn that she had not worked exclusively for Y1; (vi) on September 1, 2019, Y2 sent messages to X stating that the way she works was not professional and that her articles were pointless unless they came up on the top page of the search results; (vii) on September 4, Y2 expressed displeasure with X about the low quality of her services and her status of having another job; (viii) and he hugged her and tried to kiss her, and pressed his crotch against her buttocks; (ix) on October 7, 2019, when Y2 had a meeting with X, he hugged her and tried to kiss her, and then ordered her and another woman A, to take off their tops and touch each other's breasts; (x) on October 21, when X requested Y2 to have a meeting to discuss how to verify or assess her services, Y2 sent her messages stating that she should not demand fees if she was unable to understand these things unless she was taught them, that Y1 had not signed any contract with her and could not sign any contract with her because her skills were poor, and that she should not demand fees if she wished to be taught and trained by Y2.

It is appropriate to conclude that the series of behavior of Y2 described in (i) to (x) above constitutes sexual harassment that violates X's sexual freedom, and it also constitutes power harassment (explained below) in that Y2 had X engage in various services under his instructions based on the Service Contract, and yet, he refused to pay fees to X without legitimate grounds and, thereby, caused economic disadvantage to her.

3. Whether Y1 is liable for default on obligations due to the company's breach of the obligation to care for employee safety and health

X was entrusted by Y1 to engage in services such as writing articles that would be posted on Y1's website and create and operate Y1's website as the company's exclusive website manager, and performed these services while receiving instructions from Y2, and thus, it is found that X was in effect in the position to provide services to Y1 under its direction and supervision. Therefore, Y1 had an obligation under the principle of good faith and fair dealing to give the necessary consideration to enable X to provide services while ensuring her life and physical safety.

Y1 is found to have violated X's sexual freedom by way of the behavior of Y2 that constitutes sexual harassment or power harassment and, thereby, breached this obligation. Consequently, Y1 is liable for default on obligations due to the breach of this obligation.

4. Amount of damage suffered by X due to the tort by Y2 and the default on obligations by Y1

(1) Consolation money

It is appropriate to find that an amount sufficient to compensate X for the mental distress she suffered because of the tort by Y2 and the default on obligations by Y1 is 1.4 million yen.

(2) Lawyer's fee

100,000 yen

III. Commentary

The issue of this case is sexual harassment or

power harassment against a freelancer. “Power harassment” is a term that was originally coined in Japanese, with each of the two words borrowed from English (the same expression does not exist in English), and first came into use in the early 2000s, generally to refer to harassment by a person in a superior position. In the judgment on this case, the court determined that the service contract concluded between the plaintiff freelancer and the defendant company has the nature of a quasi-mandate contract, and found the company’s breach of the obligation to care for employee safety and health, which is an accessory obligation attached to the service contract. This case is significant in that it found a breach of the obligation to care for employee safety and health in the context of purely bilateral entrustment of services, and it can be evaluated as a case the consequence of which can lead to the protection of freelancers, the number of whom is increasing.

1. Relationship between the parties that serves as the prerequisite of the obligation to care for employee safety and health

In the third point of this judgment, the court examined whether Y1 is liable for default on obligations due to the breach of the obligation to care for employee safety and health, and it found the company to be liable. This determination has a certain degree of significance in that it held Y1 to be liable for default on obligations (due to the breach of the obligation to care for employee safety and health) in the case in which the tort committed against X by Y2 was disputed.

The precedent case that cannot be ignored when discussing the obligation to care for employee safety and health is the *Ground Self-Defense Force (SDF) Hachinohe Maintenance Facility* case.¹ This is the case in which the court established the concept of the obligation to care for employee safety and health for the first time in case law. That case is about the accident in which an SDF member who was engaged in vehicle maintenance was run over and killed by a heavy vehicle driven by another SDF member. In this case, the Supreme Court defined the obligation to care for employee safety and health as the “obligation

assumed by one party to the other party or by both parties to each other under the principle of good faith and fair dealing as an accessory obligation attached to the legal relationship based on which the parties have entered into a relationship of special social contact.”

The obligation to care for employee safety and health that is based on such relationship of special social contact is applicable to various types of contracts for providing services. It is pointed out that the obligation to care for employee safety and health has been established as a contractual obligation (or an obligation based on a relationship similar to a contract) that is applicable to a wide area including school accidents.²

Currently, the obligation to care for employee safety and health under a labor contract is prescribed in Article 5 of the Labor Contracts Act. However, this judgment is significant because it specifically affirmed that the obligation to care for employee safety and health exists with regard to freelancers, who does not have “worker status.” It can be evaluated as meaningful at the present time when attention is being paid to the protection of freelancers.

Before this judgment, there was a precedent, the *Waka no Umi Unso* case,³ in which the court determined that the plaintiff (freelance truck driver) was not “worker” but affirmed that there was a “relationship of employment and subordination that is equivalent to an employment contract” between the plaintiff and the defendant (transport company), by stating that “although there is no employment contract between them, there is a relationship in which the plaintiff provides services under the direction and supervision of the defendant.” It is not certain, but the Tokyo District Court may have made reference to this precedent judgment when handing down the judgment of the present case.

2. Scope covered by the obligation to care for employee safety and health

In the third point of this judgment, the court stated that “Y1 is found to have breached the abovementioned obligation by way of the behavior of Y2, who violated X’s sexual freedom by

committing sexual harassment or power harassment against her.” However, the court should have demonstrated certain reasoning as to whether the obligation to care for employee safety and health covers a person’s “sexual freedom.”

Originally, employer’s obligation to care for employee safety and health has been generated and has developed as an obligation to protect people’s lives and bodies as their legal interest from personal damage, that is, death and injury, and it can be said that the core area of concern of this concept is interest that is physically violated. If “sexual freedom” is considered to be freedom to sexual self-determination or freedom as to sexual feelings, it is somewhat surprising that it is covered by the obligation to care for employee safety and health (having said that, it may not be surprising if “sexual freedom” also means freedom from sexual violation (freedom from sexual violence); it should be noted that there can be various views on this point).

Obviously, it is clear that the doctrine of the obligation to care for employee safety and health actually exists and it has developed to a certain degree from the level where it was generated. However, in past cases in which the violation of the victim’s sexual freedom was disputed, such as the *Mie Sexual Harassment* case⁴ (a case in which the plaintiffs were subject to indecent words and were touched on their buttocks and other body parts several times by the defendant, who was their superior, at a hospital established by the defendant corporation), the obligation to consider the work environment (described in the judgment on the *Mie Sexual Harassment* case as the “obligation to take care to maintain a comfortable work environment for employees”) basically applied. In short, it can be pointed out that “sexual freedom” may be more directly protected by the obligation to consider the working environment, rather than the obligation to care for employee safety and health.

Therefore, in light of the history of the concept of

the obligation to care for employee safety and health and its relationship with theories of other types of obligations, the view adopted by this judgment that the obligation to care for employee safety and health covers “sexual freedom” may sound odd (but there is no such oddness if “sexual freedom” is considered to mean freedom from sexual violation (freedom from sexual violence) as well). In the present case, due to the violation of X’s sexual freedom by Y2, X was diagnosed as having depression at a mental health clinic and was found to have symptoms such as insomnia, depressive mood, a lack of concentration, palpitations and shivering. Such a consequence can be identified as personal damage. Therefore, there would be no objection to the view that the obligation to care for employee safety and health ultimately applies to the consequence mentioned above. However, it may be a leap of logic to consider that the obligation to care for employee safety and health directly covers “sexual freedom.”

In this judgment, the court determined that Y1’s refusal to pay fees to X without legitimate grounds constitutes “power harassment that causes economic disadvantage to her.” Although this point is not particularly discussed in this commentary, it has a significant meaning for freelancers, who could face the same problem as X. Given that it is highly likely that similar lawsuits will be brought to court along with the increase in the number of freelancers, this judgment can be an important precedent in that it raised a question regarding the argument on an accessory obligation attached to a quasi-mandate contract.

1. The *Ground Self-Defense Force (SDF) Hachinohe Maintenance Facility*, Supreme Court (Feb. 25, 1975) 29-2 *Minshu* 143.

2. Takashi Uchida, *Minpō III, Saiken sōron, tanpo bukken (dai 4 han)* [Civil Law III, generalities on claims, security interest (4th edition)] (University of Tokyo Press, 2020), 152.

3. The *Waka no umi unso* case, Wakayama District Court (Feb. 9, 2004) 874 *Rohan* 64.

4. The *Mie Sexual Harassment* case, Tsu District Court (Nov. 5, 1997) 729 *Rohan* 54.

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Non-Regular Employment Measures in Japan

TAKAHASHI Koji

I. Definition of non-regular employment and its presence in the Japanese-style employment system

Under Japan's labor and employment policy, *hi-seiki koyō rōdōsha* (non-regular workers) are defined as workers who fall under the category of *pāto taimu rōdōsha* (part-time workers), *yūki keiyaku rōdōsha* (fixed-term contract workers), or *haken rōdōsha* (temporary agency workers, also referred to as “dispatched workers” in laws). The Ministry of Health, Labour and Welfare (MHLW) provides estimates of the numbers (percentages) of workers in each category in the related surveys as follows. Part-time workers account for 27.3% of all employees (“General Survey on Part-time Workers,” 2016), fixed-term contract workers for 22.4% (“Survey on Fixed-Term Labor Contracts,” 2020), and temporary agency workers for 3.2% (“General Survey on Dispatched Workers,” 2017). It should be noted that we cannot make a simple sum of these percentages because there is overlap between the three categories.

Non-regular workers account for 36.7% of all employees (excluding executives) in average for January-March, 2022, according to the Ministry of Internal Affairs and Communication (MIC)'s *Labour Force Survey*. In contrast to the labor policy definition, MIC's household surveys such as the *Labour Force Survey* and *Employment Status Survey* distinguish between “regular” and “non-regular” employment based on the workplace designation, that is, how the worker's employment type is referred to at each workplace. Specifically, while regular workers are defined as those who are referred to as

seiki shokuin/jūgyōin (regular staff/employees) or fall under a similarly named employment type at their workplace, non-regular workers are defined as those referred to as *pāto* (part-time workers), *arubaito* (side-job workers)¹, *haken jigyōsho no haken shain* (temporary agency workers employed by temporary work agencies), *keiyaku shain* (contract workers), *shokutaku* (entrusted workers)², or those in “other” employment types.

While non-regular workers under labor policy and “non-regular workers” under the designation given at their workplace generally coincide, there are exceptions. Some are referred to as non-regular workers at their workplaces but treated as regular workers in labor policy. Specifically, (i) workers employed with permanent labor contracts who are referred to as part-time workers at their workplaces but in practice working full time, and (ii) full-time workers with permanent labor contracts who have switched from a fixed-term labor contracts under the legal provision called “conversion rule” (explained further below).

Regardless of how non-regular workers are defined, it is essential to remember that the presence of non-regular workers is inseparably linked with Japan's employment system. Namely, under the Japanese-style employment system—often characterized by regular workers whose employment arrangements are long term allowing them to receive training by being gradually entrusted with more advanced tasks over time, non-regular workers have been used for jobs that involve supplementary tasks with less stability compared to regular workers. In academic contexts, the difference is expressed as

regular workers being members of their workplace while non-regular workers being non-members.

II. Trends in the numbers and typical industries of non-regular workers

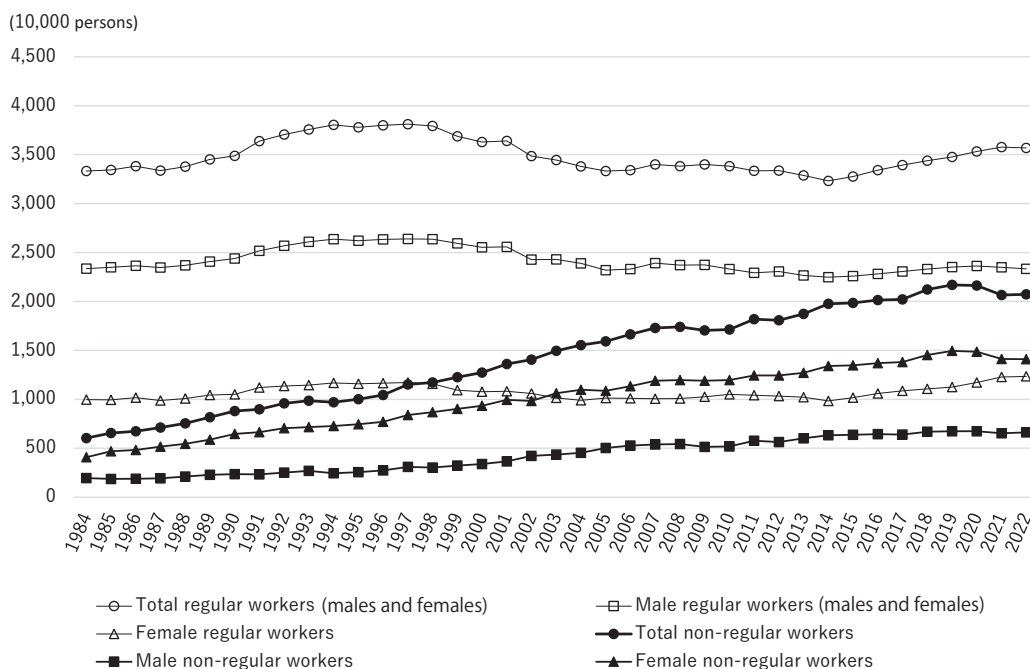
Figure 1 presents the trends in the numbers of regular and non-regular workers. It shows that regular workers in number peaked in the late 1990s, declined over a long period in the 2000s, and have subsequently been on the increase since 2015. The number of non-regular workers, on the other hand, has been rising almost consistently for 40 years. Closer examination reveals that there were two periods in which the number of non-regular workers were on the decline: firstly, in 2009 during the recession prompted by the global financial crisis, and secondly, during the recession that accompanied the COVID-19 pandemic in 2020–2021. It is typical for

non-regular employment to decline during periods of recession.

Let us look at the numbers by industry along with the percentages of non-regular workers among all employees. The absolute number of non-regular workers is high in the “wholesale and retail trade,” “medical, healthcare and welfare,” and “manufacturing,” while the percentage of non-regular workers is high in the “accommodations, eating and drinking services” (hereinafter, “accommodation and food services”) and “living-related and personal services and amusement service” (Figure 2).

III. Utilization of non-regular workers

Table 1 shows the trends in the reasons for which enterprises use non-regular workers. Though caution is required when interpreting the data due to the

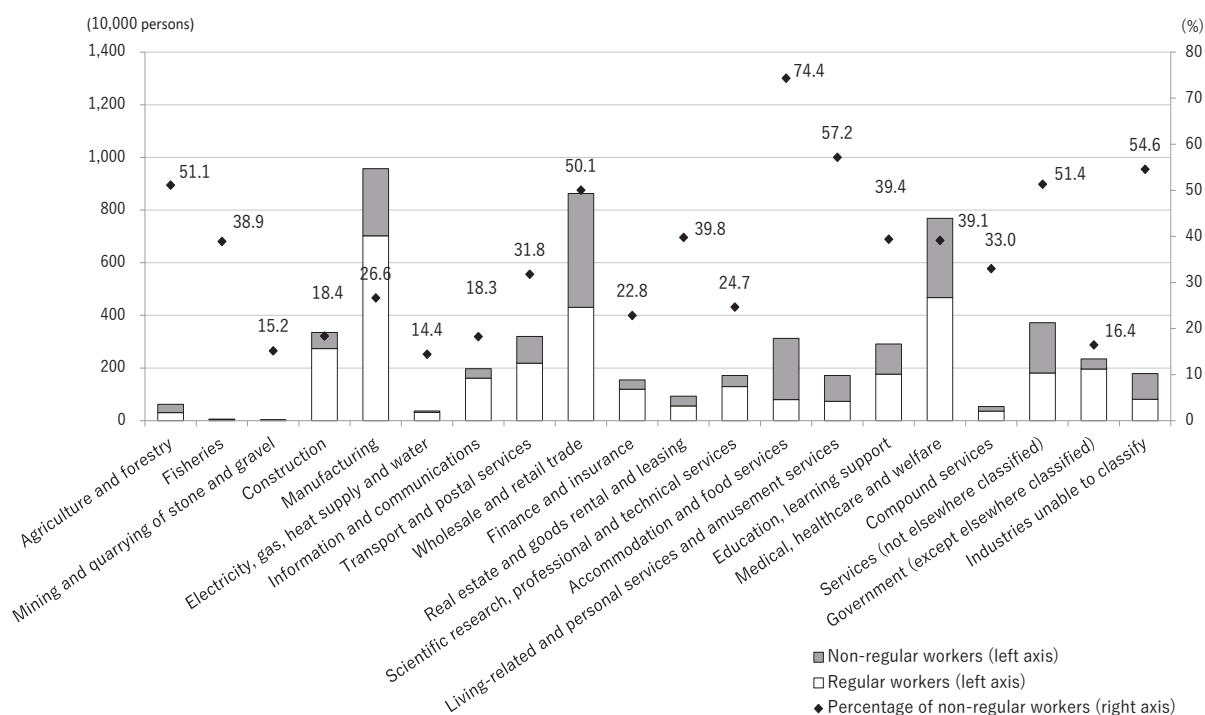


Sources: Data for 2002 onward are from the *Labour Force Survey* (Detailed Tabulation), and data for 2001 and earlier are from the *Special Survey of the Labour Force Survey* (both MIC).

Notes: 1. Figures for 2002 onward are averages for January–March.

2. Figures for 2001 and earlier are figures for February.

Figure 1. Trends in the numbers of regular and non-regular workers



Source: 2017 Employment Status Survey (MIC).

Note: The denominator used for calculating the percentages of non-regular workers is the sum of regular workers and non-regular workers.

Figure 2. Numbers of regular and non-regular workers by industry and percentages of non-regular workers

Table 1. Trends in the reasons for utilizing non-regular workers

	(%)						
	1994	1999	2003	2007	2010	2014	2019
	MA	MA	Up to three	Up to three	MA	MA	MA
Unable to recruit regular workers	21.5	11.6	20.1	22.0	17.8	27.2	38.1
To allow regular workers to specialize in important work	-	15.8	15.4	16.8	17.3	22.6	24.7
To handle specialized tasks	22.5	23.8	23.1	24.3	23.9	28.4	29.3
To hire industry-ready talent with experience and expertise	13.2	23.7	26.3	25.9	24.4	30.7	30.9
To adjust workforce in response to economic fluctuation	21.5	30.7	26.5	21.1	22.9	19.9	15.1
To meet extended business hours	17.0	20.6	18.1	18.9	20.2	20.2	20.3
To accommodate fluctuations in the amount of work on a daily or weekly basis	29.1	29.6	28.0	31.8	33.9	32.9	31.7
To meet temporary or seasonal changes in demand	20.1	23.0	17.6	16.6	19.1	20.7	20.6
To reduce personnel costs	46.1	61.0	-	-	-	-	-
To reduce wage costs	-	-	51.7	40.8	43.8	38.6	31.1
To reduce labor costs other than wages	-	-	22.5	21.1	27.4	22.4	17.2
As a means of reemploying older workers after retirement	10.2	10.3	14.2	18.9	22.9	26.8	29.0
As a substitute for regular workers on childcare or family care leave	-	6.2	3.0	2.6	6.7	10.3	11.2
Others	12.5	9.9	3.8	14.1	8.1	9.0	12.5

Source: MHLW, "General Survey on Diversified Types of Employment."

Note: Figures in bold are the three highest figures for each year. MA stands for multiple answers.

multiple answer question styles that differ depending on the survey year, several insights can be drawn from the table. First, the percentage of enterprises that utilize non-regular workers in order to reduce personnel and wage costs was formerly extremely high and is gradually declining. Second, the percentage of “to adjust their workforce in response to economic fluctuations” was high around the year 2000 but has also been decreasing since then. Third, the percentage of “to accommodate fluctuations in the amount of work according to the time of the day or day of the week” has been always at around 30%. Fourth, in recent years a prominently high percentage of enterprises have been utilizing non-regular workers due to being “unable to recruit regular workers.”

While not included in the table, a close look at data on enterprises’ reasons for utilizing non-regular workers around the year 2000 shows that the utilization of part-time workers, in particular, was often aimed at reducing personnel and wage costs, while that of temporary agency workers was commonly a means of adjusting workforce in response to economic fluctuations.

IV. Issues to discuss

The situations or reasons for enterprises to utilize non-regular workers are changing over time as shown by the data above. Particularly around the year 2000, enterprises often utilized them to reduce personnel costs and adjust workforces. It was also around this time that the number of regular workers declined and that of non-regular workers rapidly increased. In fact, non-regular workers utilization in said period had a serious impact on such workers’ professional and private lives and in turn for society as a whole. Specifically, the following situations and impact are the issues to discuss.

Firstly, following the collapse of Japan’s bubble economy, particularly since the late 1990s, there was an increase in the number of “involuntary non-regular workers,” who have failed to find regular employment and entered non-regular employment involuntarily. It is widely known that there are a large

number of such workers among male and young workers. Although the number of involuntary non-regular workers has been on the decline since the *Labour Force Survey* began tracking them in 2013, their existence remains the most fundamental issue that should not be overlooked among those surrounding non-regular employment.

Secondly, many non-regular workers have been struggling with a lack of job security. In the recession prompted by the 2008–2009 global financial crisis, vast numbers of non-regular workers in the manufacturing workplaces had their contracts terminated. There were those for whom this meant simultaneously losing their jobs and the company-subsidized housing at the same time, rendering them homeless. This quickly led to greater public awareness of non-regular employment as social issues. The COVID-19 pandemic also saw significant numbers of non-regular workers lose their employment due to termination or non-renewal of their contracts.

Thirdly, as non-regular workers were typically engaged in supplementary tasks, they struggled to make progress along their career paths even if they remained in a job long term. Even those engaged in the same tasks as regular workers often faced disparities in treatment for various reasons. Among non-regular workers, female part-time workers had a particular tendency to be working for low wages.

Fourthly, until recently, many non-regular workers have been ineligible for employment insurance and social insurance (workers’ pension insurance and health insurance), such that they lacked a sufficient safety net in case of job loss, illness, or old age.

V. Countermeasures

1. Overview

As established above, it was around the year 2000 that enterprises were utilizing non-regular workers to reduce personnel costs or to adjust their workforces, and also that the labor market as a whole was experiencing a decline in regular workers and a rapid increase in non-regular workers. As a matter of

fact, this was a period in which the regulations on non-regular workers utilization were relaxed. This included steps such as raising the upper limit on the fixed-term labor contract periods and broadening the types of work for which temporary agency workers could be used. See the attached chronological table for laws, policies, and trends in labor market related to non-regular employment in Japan (Table 2).

However, the growing public discontent toward the striking *kakusa shakai* (social disparity), as represented by the gap between regular and non-regular employment, prompted the Liberal Democratic Party (LDP) administration to begin to lay out policies for the protection of non-regular workers from around 2005 onward. Particularly, this entailed the 2007 revision of the Minimum Wage Act, which accelerated the raising of the minimum wage, and, likewise in the same year, the introduction of the principles of “equal treatment” (prohibition of less favorable treatment) and “balanced or proportional treatment” between regular workers and part-time workers under the revision of the Part-Time Workers Act (formally, the Act on Improvement, etc. of Employment Management for Part-Time Workers).

Democratic Party of Japan (DPJ) administration from 2009 to 2012 further tightened regulations regarding part-time work, fixed-term labor contracts, and temporary agency work. Upon returning to government at the end of 2012, the LDP administration focused even greater efforts toward stabilizing the employment and improving the treatment of non-regular workers, in light of the growing serious labor shortages. The overall culmination of these efforts was the enactment of the 2018 Work Style Reform Act (formally, the Act on the Arrangement of Related Acts to Promote Work Style Reform), a comprehensive legal package with proposed amendments to a total of eight laws. It prescribed the revision of the Part-Time Workers Act under the new title of the Part-Time and Fixed-Term Workers Act (formally, the Act on Improvement of Personnel Management and Conversion of Employment Status for Part-Time Workers and Fixed-Term Workers), and revision of the Worker Dispatching Act (formally, the Act on Securing the Proper Operation of Worker

Dispatching Businesses and Protecting Dispatched Workers, hereinafter WDA).

While the period around the year 2000 saw efforts to push forward with the deregulation of non-regular employment utilization, the policies began to be introduced toward tightening regulations generally from around 2005. Although the principles behind the policies have changed slightly amid the shifting political circumstances by the changes of government, the protection of non-regular workers (tightening regulations) has remained the fundamental direction of policy since then.

2. Specific policy measures

Let us now examine the specific policy measures and their impacts along with the aforementioned four issues (see IV above) for non-regular workers utilization.

Firstly, the involuntary non-regular workers, whether part-time workers, fixed-term contract workers, or temporary agency workers, increased largely among men and young people. To respond to the rise in the number of such workers, many measures were adopted to facilitate conversions from non-regular employment to regular employment. These included promoting the use of schemes such as the subsidy for career advancement³, the job-card system⁴, and the trial employment subsidy program⁵ as well as the formulation of MHLW’s “Plan for Promoting Conversions to Regular Employment and the Improvement of Conditions for Non-Regular Workers” in 2016. Efforts were also made to promote the establishment of an employment category called *tayō na seishain* (diverse regular workers) and to try to utilize this new category as a destination for non-regular workers to be converted, which is a form of regular employment with restrictions on terms and conditions of employment such as place of work (preventing the possibility of personnel transfers requiring relocation) or the types of work that they engage in. While it is unclear to what extent such policies were effective, the number of regular workers has been on the increase since 2015.

Secondly, the aforementioned conversion rule was introduced under the 2012 revision of the Labor

Table 2. Chronological table for non-regular employment in Japan

Year	Developments in labor law and labor policy	Labor market conditions	Political, economic and social situations
1985	Worker Dispatching Act enacted		
1986			
1987			
1988			
1989			
1990		The share of non-regular workers exceeded 20% of all employees.	
1991			Burst of the economic bubble
1992			
1993	Part-Time Workers Act enacted		Nikkeiren "Employment Portfolio" report released
1994			
1995			
1996	Expansion of the types of work performed by temporary agency workers was carried out (from 16 types to 26 types of work).		
1997			Collapse of major financial institutions, Asian currency crisis
1998	Labor Standards Act amended (extension of the maximum period of fixed-term labor contract to three years (as a special measure))	The number of regular workers took a downward turn.	
1999	Worker Dispatching Act amended (liberalization, in principle, of the types of work for temporary agency workers was carried out)		
2000			
2001			Burst of the information-technology bubble
2002		The share of non-regular workers exceeded 30% of all employees.	
2003	Labor Standards Act amended (extension of the maximum period of fixed-term labor contract to three years in principle and five years as a special measure) Worker Dispatching Act amended (lifting the ban on sending temporary agency workers to manufacturing operations; extension of the period for which temporary agency workers work)		
2004			
2005			
2006			
2007	Labor Contract Act enacted Minimum Wage Act amended Part-Time Workers Act amended (introduction of the principles of equal treatment and balanced or proportional treatment)		
2008		A large number of temporary agency workers lost jobs. The number of non-regular workers declined from 2008.	Global financial crisis
2009			
2010	Employment Insurance Act amended (expansion of coverage)		
2011			
2012	Labor Contract Act amended (introduction of the rule of converting a fixed-term contract to a permanent contract; prohibition of unreasonable difference in treatment between workers under fixed-term contract and workers under permanent contract) Worker Dispatching Act amended (prohibition of dispatching day workers; obligation to give due consideration to balanced or proportional treatment between temporary agency workers and client's regular workers) Expansion of social insurance coverage (relaxing of the requirement of working hours from 30 hours or more to 20 hours or more)	Baby boomers reached the age of 65 and started to retire.	Great East Japan Earthquake
2013			
2014	Part-Time Workers Act amended		
2015	Worker Dispatching Act amended (measures for ensuring employment security, measures for promoting career development)	The number of regular workers took an upward turn.	
2016	"Plan for Promoting Conversions to Regular Employment and the Improvement of Conditions for Non-Regular Workers" compiled		
2017			
2018	Work Style Reform Act enacted (Part-Time Workers Act amended and renamed; Worker Dispatching Act amended)		
2019			
2020		The number of non-regular workers declined from 2019.	Emergence of COVID-19 pandemic
2021		The number of non-regular workers declined from 2020.	
2022			

Age of deregulation

Labor shortage becoming serious

Employment ice age

Dissatisfaction with social disparity

Business upturn

Economic disturbance

DP-led government

Source: Prepared by the author.

Contracts Act, to ensure job stability for fixed-term contract workers. Under this rule, fixed-term contract workers whose contracts had been repeatedly renewed for a total of at least five years became entitled to have their contract converted to a permanent contract upon their request. The conversion rule has been criticized because many fixed-term contract workers are unaware that it even exists. However, the MIC's *Labour Force Survey* confirms some policy effects (decline in the number of fixed-term contract workers and increase in that of permanent contract workers).

Thirdly, the revisions of laws were implemented to rectify disparities in treatment between regular and non-regular workers. For part-time workers, the 2007 revision to the Part-Time Workers Act (originally enacted in 1993) allowed for the introduction of the principles of equal treatment and balanced or proportional treatment with regular workers. These principles were further strengthened with the subsequent revision and renaming of said act, which led to the enactment of the Part-Time and Fixed-Term Workers Act in 2018. For fixed-term contract workers, the 2012 revision to the Labor Contracts Act saw the introduction of the balanced or proportional treatment principle with permanent contract workers. Building upon this, the 2018 Part-Time and Fixed-Term Workers Act determined the strengthened principles of equal treatment and balanced or proportional treatment with regular workers. For temporary agency workers, the 2018 revision to the WDA also prohibited unreasonable disparities in treatment with regular workers (using two methods, touched on 3 below). As the impacts of such revisions of laws are anticipated to gradually reveal themselves in the form of individual enterprises' initiatives to revise wage scale and wage structure, immediate elimination of disparities in treatment between regular workers and non-regular workers are less expected. However, statistical analysis by the MHLW has ascertained some impacts of this policy such as the reduction in the gap in hourly wages between regular and non-regular workers (MHLW 2023). In addition to the above revisions of laws, the raising of the minimum wage

from 2007 onward under the 2007 revision to the Minimum Wage Act is also thought to have affected the treatment (wages) of non-regular workers.

Fourthly, while the safety nets for non-regular workers were formerly insufficient, the number of non-regular workers covered by safety nets increased with the relaxation of eligibility criterion for employment insurance and social insurance (workers' pension insurance and health insurance) in the 2010s. In 2010, the eligibility criteria for employment insurance were changed, reducing *koyo mikomi kikan* (the expected period of employment) required from six months to at least 31 days. Subsequently, in 2012, the social insurance system saw change in eligibility criteria of the prescribed weekly working hours from at least 30 hours to at least 20 hours. Though such safety nets may not yet extend to all non-regular workers, there are ongoing discussions to explore their extension.

3. Temporary agency work

In Japan, temporary agency work has several noteworthy developments in policy measures particularly given that it is a category covered in its own specific legislation. It was legalized with the enactment of the WDA in 1985. The number of temporary agency workers rose rapidly thereafter, with relaxations in regulations in 1999 and 2003 revision, which expanded the types of work and the period for which they could be dispatched. However, as a result of the global financial crisis, vast numbers of these workers lost their jobs in around 2008–2009, and public pressure led to a series of revision of laws aimed at protecting them by tightening regulations. The 2012 revision introduced the obligation for the temporary work agency to give due consideration to the balanced or proportional treatment with the regular workers of client enterprises, in addition to the prohibition against, in principle, sending a temporary agency worker under a daily employment contract. The 2015 revision tightened measures for their job security and introduced career development measures.

In 2018, the revision to the WDA prohibited unreasonable disparities in treatment between

temporary agency workers and regular workers at client enterprises. The revised law has presented two approaches for enterprises, stipulating the principle of (1) method of equal treatment and balanced or proportional treatment with the client's regular workers while also allowing the option of (2) method of "appropriate" treatment based on the labor-management agreement at the temporary work agencies.

VI. Will labor shortages and tighter regulations resolve the issues?

The labor shortages and trend toward tightening of regulations in recent years have served as a tailwind accelerating the improvement of working conditions for non-regular workers. Will riding on this trend allow the issues concerning non-regular workers to be resolved?

Firstly, the *Labour Force Survey* shows that the number of involuntary non-regular workers has declined, from 3.41 million persons in 2013, to 2.10 million in 2022. With the increasing sense of a shortage of regular workers, those involuntary non-regular workers with the desire and ability may have been gradually converting their form of employment to regular employment. This does not mean, however, that those workers receive sufficient treatment. As we established above, the existence of involuntary non-regular workers is the most fundamental issue of non-regular employment. Those workers receive lower wages in comparison with those who become regular workers upon being hired as new graduates (Lee 2012). In addition, women who convert to regular employment have a high turnover rate, which may to some extent be due to the fact that they are employed in low-level jobs after conversion (Takahashi 2017). It is necessary for the government and researchers to cooperate to closely observe whether such conversion actually leads to a real improvement in working conditions.

Secondly, the enactment of the Work Style Reform Act in 2018 reinforced the principle that part-time workers or fixed-term contract workers should receive equal and balanced or proportional

treatment to that received by regular workers. The treatment of temporary agency workers was also addressed by prohibiting unreasonable disparities in treatment with that of regular workers. These legal reforms may possibly have somewhat reduced the disparity in treatment between regular and non-regular workers.

However, the large majority of non-regular workers are engaged in work duties that are at lower level in comparison with regular workers. As the legal regulations prescribe that wages be determined on the basis of the level of work duties, the wages of non-regular workers are unlikely to rise significantly as long as the level of work duties does not increase. Thus, the next challenge to eliminate the disparity in treatment is ensuring that non-regular workers are able to progress along their career paths.

Thirdly, the series of steps to tighten regulations—such as the conversion rule introduced in 2012 and the Work Style Reform Act enacted in 2018—have raised the bar for enterprises using non-regular workers. This may prompt enterprises to decrease their non-regular workforce and expand their regular workforce. The number of regular workers has in fact been on the increase since 2015.

At the same time, enterprises may seek to draw on new forms of employment that are even beyond the bounds of employment. That is, using workers such as freelancers or platform workers, whose work is often not covered by the regulations of labor laws. We must continue to closely follow how work is conducted in practice outside the bounds of employment.

1. *Arubaito* (side-job workers) typically means students or homemakers working temporarily.
2. *Shokutaku* (entrusted workers) typically refers to workers who have been reemployed after reaching mandatory retirement.
3. The Career Advancement Subsidy provides subsidies to companies that improve the treatment of non-regular workers such as fixed-term workers, part-time workers, and temporary agency workers, by converting them to regular workers or establishing new wage rules and benefits.
4. The Job-Card framework summarizes (i) an individual's academic background and personal information, (ii) work experience, and (iii) qualifications and certificates, including training, learning records (with training outcome evaluations, if available), and job performance evaluations, in three types of

guided sheets. The MHLW has been promoting the use of this system providing a website (<https://www.job-card.mhlw.go.jp/>) to help individuals fill out their Cards.

5. Trial employment is a system that helps people who have difficulty finding a job because of lack of work experience or who wish to work in a profession but have no previous experience, for their transition to regular employment after three months of trial employment. During the trial period, the employer would receive a certain amount of money as a trial employment subsidy. At the end of the trial under a temporary contract, if both the company and the person (probationer) agree, the company hires the person as a regular worker. According to data from the MHLW, approximately 70% of those who completed the trial have been transitioned to regular employment.

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



Main Labor Economic Indicators

1. Economy

The Japanese economy is recovering at a moderate pace. Concerning short-term prospects, the economy is expected to continue recovering at a moderate pace with the improving employment and income situation, supported by the effects of the policies. 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 and fluctuations in the financial and capital markets. (*Monthly Economic Report*,¹ July 2023).

2. Employment and unemployment

The number of employees in June increased by 610 thousand over the previous year. The unemployment rate, seasonally adjusted, was 2.5%.² Active job openings-to-applicants ratio in June, seasonally adjusted, was 1.30.³ (Figure 1)

3. Wages and working hours

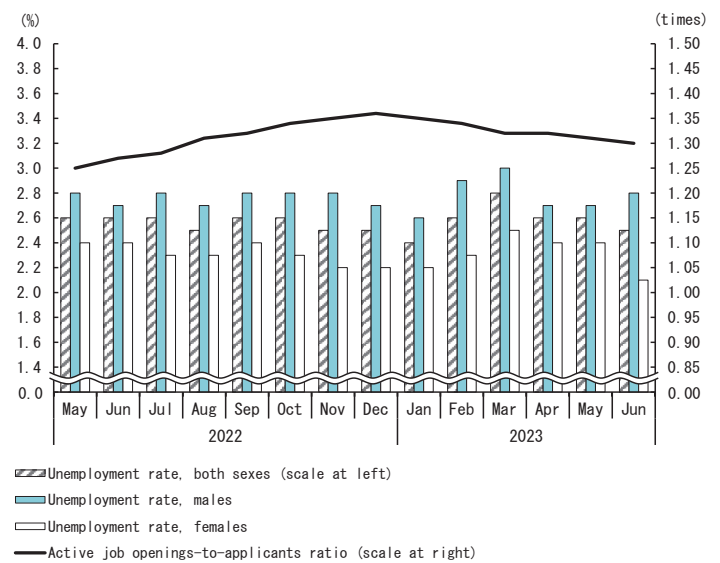
In June, total cash earnings increased by 2.3% year-on-year and real wages (total cash earnings) decreased by 1.6%. Total hours worked increased by 0.1% year-on-year, while scheduled hours worked increased by 0.2%.⁴ (Figure 2)

4. Consumer price index

In June, the consumer price index for all items increased by 3.3% year-on-year, the consumer price index for all items less fresh food increased by 3.3%, and the consumer price index for all items less fresh food and energy increased by 4.2%.⁵

5. Workers' household economy

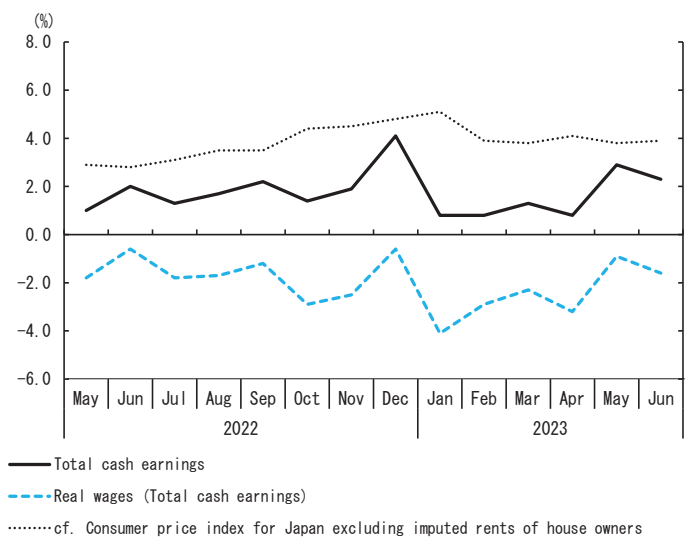
In June, consumption expenditures by workers' households decreased by 0.7% year-on-year nominally and decreased by 4.4% in real terms.⁶



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

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>

What's on the Next Issue

Japan Labor Issues

Volume 7, Number 45, Special Issue 2023

tentative

Country reports on “Current Situation and Challenges of Inequality in Society—Overcoming Social Divisions towards the Post-COVID-19 Era” presented by researchers from countries and regions in the Asia-Pacific area at the 6th JILPT Tokyo Comparative Labor Policy Seminar (held online on March 8, 2023).

● **KEYNOTE LECTURE**

María Emilia Casas Baamonde

● **REPORTS**

China/Employment Opportunities and Income Growth for China's Migrant Workforce in the Post-Covid-19 Era
Tianyu WANG

Chinese Taipei/Challenges Arising from COVID-19 and Current Situation in Taiwan
Che-Yi WU

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Lin KIM

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