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**Considering Practical Labor Policy Evaluation
and its Methods
(Summary)**

The Japan Institute of Labour

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I. Research theme

In the final report of the Administrative Reform Council of December 3, 1997, a proposal was made for introduction of policy evaluation in Japan's administrative agencies. Simultaneously with the reorganization of the ministries and agencies of January 2001, the "Standard Guidelines on Policy Evaluation" were approved at the Liaison Conference of the Cabinet Office and Ministries for Policy Evaluation, and it was decided to introduce policy evaluation in all government agencies based on the guidelines. Moreover, with the enforcement of the Government Policy Evaluation Act as of April 1, 2002, a policy evaluation system was legislated. Regional governments in Japan are also promoting policy evaluation. Anticipating that policy evaluation will become one of the main pillars of its research projects, the Japan Institute of Labour focused on the employment policy for older persons, particularly for those in their 60s, and examined the methodology for evaluating labor policies. The current research was conducted at the request of the Ministry of Health, Labour and Welfare in 2001 and 2002.

II. Research method

As the current research theme calls for examination from many different angles, specialists in diverse fields ranging from labor economics, labor laws, human resources, and social security were summoned to form the Study Group on the Methodology for Labor Policy Evaluation as shown below. At the same time, interviews were conducted on key persons in management and labor and staff of public employment security offices who were well versed in the subject (see "Outline of the Study Group's Interviews of Well Informed Persons" in Chapter IX: Reference). An investigation was also carried out in Europe (see Chapter VIII: "Employment of Older Persons in Europe and the U.S. and Policy Evaluation"). The subjects covered in the research were wide-ranging. They include theoretical viewpoints on evaluation of employment policies for older person; evaluation of corporate policies on human resources management; evaluation of policies related to incomes, assets, and working behavior; realization of gradual retirement through linkage with social security policies on pensions and health care and evaluation of the policies; legal aspects of evaluation of employment policies for older persons; and employment of older persons in Europe and the U.S. and policy evaluation (see respective articles written by the study group members from Chapter II to VIII). The current research focused on the methodology

for policy evaluation and did not go into specific case studies.

Study Group on the Methodology for Labor Policy Evaluation

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III. Composition of the report

The report is composed of the chapters shown below.

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| Chapter II | Characteristics of employment of older persons in Japan and the problems of policy evaluation | Yoshio Higuchi and Katsuhiko Iwata |
| Chapter III | Issues related to evaluation of the employment policy for the elderly | Yoshio Okunishi |
| Chapter IV | Employment policy for older persons and | Atsushi Yashiro |

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| Chapter V | human resources management Income differences of older households and issues related to employment policy for older persons | Yoshihiro Kaneko |
| Chapter VI | Social security policy and gradual retirement | Katsuya Yamamoto |
| Chapter VII | Legal aspects of policy evaluation related to the employment of older persons | Shinobu Nogawa |
| Chapter VIII | Employment of older persons in Europe and the U.S. and policy evaluation | Katsuhiko Iwata, Shinobu Nogawa, Akiko Taguchi and Kazufumi Yugami |
| Chapter IX | Reference | |
| | I. Current state of policy evaluation in Japan (Ministry of Public Management, Home Affairs, Posts and Telecommunications, Ministry of Health, Labour and Welfare, other Ministries and regional governments). | Katsuhiko Iwata and Takashi Fujimoto |
| | II. Outline of the study group's interviews of well informed persons | Katsuhiko Iwata, Takashi Fujimoto and Madoka Takai |

IV. Outline of each paper

Chapter II: Characteristics of employment of older persons in Japan and policy evaluation (Yoshio Higuchi and Katsuhiko Iwata)

In this chapter, general issues were raised on the evaluation of employment policy for older persons based on the exchange of opinions at the Study Group on the Methodology for Labor Policy Evaluation. After briefly explaining the employment policy for older persons in Japan, the authors examined the characteristics of Japan's employment policy for the elderly in comparison with other countries, the current state of policy evaluation, and some of the points that should be noted in evaluating the employment policy for older persons.

In Japan, promotion of employment of older persons and realization of gradual retirement with respect to all aspects of work are important issues. If we look only at the labor force participation rates and employment rates, it can be said that gradual retirement has already been realized at least for men. Wages, types of work, and working styles, however, change significantly with workers before and after 60 years of age, which gives rise to concern about intragenerational and intergenerational gaps in incomes, assets, and pensions. Together with promotion of employment of women in all age groups, the realization of gradual retirement with respect to all aspects of work is an issue that Japan will need to address.

Employment policy for older persons can be categorized into i) measures that are limited to the elderly, ii) measures that deal widely with all who are having difficulty finding employment, including the elderly, and iii) measures that are designed to correct age discrimination. In Japan, employment policy for the elderly is centered on i) above and supplemented by ii).

Evaluation done within government agencies and evaluation performed by outside researchers and research institutes both have their merits and demerits. It appears that there are no other ways of building a useful evaluation system except by combining internal and external evaluation. In Japan and EU countries, "full employment" and active aging are major policy goals. At a time of financial difficulties, however, budgetary expenditures must be thoroughly selected and concentrated. Because budgets, personnel, and other resources that can be allocated for implementation of employment policies are limited, the policies need to be carried out efficiently and by focusing on priorities.

In this chapter, policy evaluation methodologies for each specific measure of employment policy for older persons, such as employment subsidies, education and

training, employment placement and counseling, support for businesses, and public pensions' effect on employment promotion, were identified. It is, however, difficult to carry on policy evaluation on the finer details of individual policies at the outset. It is more realistic to set priorities and then broaden the scope in stages. In addition, it is important to prepare and utilize statistics of the periods that are relevant to the policy evaluation.

Chapter III: Issues related to evaluation of the employment policy for older persons (Yoshio Okunishi)

In this chapter, three themes are considered: namely, (1) basic policy stance on employment policy for older persons (validity of the policy stance on promoting employment of older persons); (2) policies related to companies' employment systems (the difficulty in changing employment systems that are rational to individual companies); and (3) the government policies on employment of older persons (in particular, evaluation on "employment subsidies").

With respect to the first theme of the basic policy stance, while the stance of promoting the employment of older persons is almost considered as given, there is a need to thoroughly examine why and in what ways a more neutral stance is not acceptable. In view of the current state of and outlook for employment insurance finances, there are some major problems with policies that are designed to promote employment of older persons based on excessive dependence on fiscal policy measures.

In the past, a mainstay of the employment policy for older persons had been extension of the mandatory retirement age. However, employment policies of older persons cannot be fully effective unless they were implemented in concert with companies' reform of the overall employment system, including wage system etc. Ideally, public policies should be implemented not through forced intervention but by providing information, and introducing advisory measures to help companies to carry on such a reform of the employment system.

The government and the public sector are directly implementing the following measures for creating more job opportunities for the elderly: (1) measures for employment placement and development of skills and competencies of the elderly; (2) advisory measures and dissemination of information; and (3) financial assistance. With respect to (1), an appropriate assignment of roles between the public and private sectors needs to be determined and the quality of public sector services needs to be improved. With respect to (2) also, an appropriate balance between the public and private sectors needs to be determined. For (3), the need for employment subsidies

must be explicated and their effectiveness checked.

From the above viewpoints, it is hoped that more specific policy evaluation and analysis is actively carried out within and outside government agencies in the future.

Chapter IV: Employment policy for older persons and human resources management (Atsushi Yashiro)

Employment policy for older persons is examined from the viewpoint of the policies of individual companies, especially from human resources management. The necessary changes on human resources management to promote employment of older persons, as well as employment policy option that can provide assistance to companies' employment of older persons, are considered.

There are three choices with respect to extension of employment for those 60 years and above: (1) raising the mandatory retirement age; (2) continued employment through a system of reemployment and extension of service; and (3) building of an "ageless" society. From the standpoint of "policy evaluation," a measure for the evaluation of three options for employment extension for those 60 and above is "which option has the most significant effect on employment absorption"

From the point of view of the elderly, they can decide their working hours depending on their fitness level, lifestyle, and social security benefits from the old-age pension for active employees, because their working hours are set shorter than those of the regular employees. For companies, on the other hand, they can adjust the personnel costs more flexibly in accordance with working hours compared to cases involving regular employees, as the fixed portion of the employee benefit costs for older workers in continued employment is smaller than those of regular employees. Therefore, it can be said that by continued employment, a greater number of older workers can share employment, compared to raising the mandatory retirement age. Among the various types of continued employment, employment absorption is the greatest when "continued employment is made available to all who apply," but this system will require modification of the wage system and other aspects of human resources management. The government will need to support companies in changing their human resource management by introducing them the model cases of "the continued employment that is available to all."

"Ageless" employment is based on the premise that "seniority based remuneration system does not exist." The abolition of the system of mandatory retirement age will give rise to a completely new issue of the need to "clarify the standards for dismissal," which has not existed before. Therefore, the realization of ageless employment is

difficult unless the existing human resources management methods are substantially reviewed in addition to introducing merit- and performance-based pay system. On the other hand, should the government implement measures for introducing ageless employment before individual companies have excluded age as a criterion for the remuneration of employees, "dismissal based on age" would be negated before "remuneration based on performance" is established. As a result, employment absorption would be the greatest among three options mentioned above. It might, however, have negative impact on the labor market.

In evaluating employment policy for the elderly, one should not overlook the interconnection of policies and the targets of such policies. In the past, human resources management in Japan emphasized long-term employment by individual companies. At a time of sustained economic growth, this contributed to achieving "the maximum happiness for the largest majority." Today, as this practice being urged for change, the value judgment on who the main "clients" of the policies are and the linkage of policies based on that judgment is required more than ever.

Chapter V: Income differences of elderly households and issues related to employment policy for older persons (Yoshihiro Kaneko)

Income differences among elderly households have the potential to increase more than in other age groups, because in addition to income gaps between households with working older persons and households without working older persons (i.e. retired), there are income gaps among retired households resulting from differences in the amount of pensions they receive. While tracing the development of empirical examination on the effect of the pension system on the working and retirement behavior of older persons, the state and factors of income differences among elderly households in the process of retirement are examined to consider the issues involved when implementing employment policies for older persons in connection with social security policies.

The results of the empirical analyses of the effect of pension benefits on the retirement behavior of older persons show that (1) preparing an environment for realizing an ageless society in which older persons are given the choice of retirement or continued employment, instead of socially prescribing the time of retirement through the mandatory retirement age system, will become an important issue with respect to employment policy for older persons and (2) employee pension insurance benefits are effective in shortening the length of service and promoting retirement of male workers.

On the state of income gaps among elderly households in an aging society, it was

found that (1) while inequality in employee incomes contributed to a large degree to the expansion of income differences in 1990s, an aging effect of income gaps can be detected and (2) because the calculation of the earnings-related component of the employee pension insurance is based on the monthly pensionable remuneration that is proportional to employee incomes, the inequality in employee incomes resulted in the inequality in pension benefits. While this was one of the factors that increased the Gini coefficient (an index showing equality of income distribution; Gini coefficient of 1 indicates the greatest inequality) of the total incomes of 1993 compared with that of 1981, Gini coefficient of 1996 was slightly smaller than that of 1993 as the pension reform of 1994 extended the insured period for the earnings-related component to reach the full amount of pension and lowered the percentage of the earnings-related component within the fixed amount component.

Lastly, three issues are identified with respect to employment policies for older persons that are designed to correct the income differences. (1) Even if the employment rates of older people increase as a result of policies that promote employment of the elderly, many older persons will work in small- and medium-sized companies, which will have comparatively greater demand for labor. (2) As the penetration rates of corporate pension schemes differ depending on the company size, an employee working for a large company who transferred to a small- or medium-sized company may not be able to utilize the corporate pension reserves for corporate pension benefits after retirement, reducing the employee's incomes after retirement. This will mean that income gaps may be created between those who transfer to small- and medium-sized companies in their old age and those who continue to be employed by large companies. (3) If employment policies that play a role as wage subsidies (with related measures such as old-age pension for active employees designed to minimize its effect on discouraging working) were to prepare an environment for an ageless society and allow older people to continue working through continued employment or job transfer, the company-size-based differences in corporate pensions need to be corrected and portability of corporate pensions must be secured in order to amend the income gaps after retirement.

Chapter VI: Social security policy and piecemeal retirement (Katsuya Yamamoto)

In this chapter, (1) realization of piecemeal retirement through linkage with social security policies (public pensions and strengthening preventive measures) and (2) resolution of gaps in incomes, assets, and pensions among the older generation are considered from the viewpoint of (a) whether progress is being made, (b) what needs to

be done, and (c) how to evaluate the effectiveness of the policies. Harmonization of the policies for (1) and (2) is an issue that Japan must address as its society ages.

Depending on how pension benefits are calculated, the amount of benefits may differ significantly for each pensioner. Because pensions are reflection of previous incomes, the difference in the amount of pension benefits will result in creating asset gaps among the elderly. Fortunately, because pension benefits are provided as ex post social security, it is possible to deal with the pension asset gaps. If intergenerational gaps are to be considered as well, the earnings-related component of pension benefits should be reduced progressively. To compensate for this, policies should be introduced to create more job opportunities. This will contribute to securing intergenerational and intragenerational equality in pension financing.

In Japan, medical care costs are based on fee-for-services payment and patients have free access to medical care. As a result, excessive visits to doctors and long-term hospitalization particularly of elderly patients are creating inefficiency, and medical care cost is an increasing function of the number of elderly patients. With respect to the employment of older persons, which is the main theme of this chapter, it will depend on which age groups are covered by the policies. For instance, if those under 70 are the subject of the policies, the elderly health care system would be irrelevant. As criteria for qualification for the retirees' medical care system are restrictive, problems related to medical care costs of the retirees' medical care system are not evident. Nevertheless, as chronic diseases are becoming the principal diseases affecting the Japanese population, strengthening preventive measures is important in allowing the elderly to maintain a sufficient level of health for working for now as well as into the future. With respect to preventive medicine, specific scientifically based numerical targets were outlined in "Health Japan 21." It is urgently required to prepare the environment that allows each person to establish a healthy lifestyle based on the principles of "Health Japan 21."

Policies for promoting the employment of older persons should not only involve those who are already in their old age. An important condition for employment of older persons is maintenance of health level, and this is influenced significantly by one's lifestyle in youth and middle age. Many of the diseases that the Japanese need to look out for are chronic diseases. Employment policies for older persons should be designed with the awareness of the fact that such diseases are preventable to a large extent.

Chapter VII: Legal aspects of policy evaluation related to the employment of older

persons (Shinobu Nogawa)

In this chapter, Japan's legal system on employment of older persons as well as how that system is reflected on specific policies are examined. Considering the legal aspects of policy evaluation is an essential premise for carrying out appropriate evaluation.

With the rapid aging of the society and declining birthrate, a need for new legal responses based on the premise that older people are to be at work was recognized, and various amendments were made to the Law Concerning Stabilization of Employment of Older Persons. While few provisions directly promote employment of older persons, the law provides for a variety of measures for supporting the efforts of the government and employers to jointly promote employment of older persons.

With respect to the legal framework for pensions, responding to the aging of the society through a rise in pensionable age and reduction of pension benefits while securing sound pension finance is an international trend. Corporate pension schemes, in conjunction with the retirement allowance system, are also forced to undergo a radical reform, and Law on Defined Benefit Corporate Pensions and Law on Defined Contribution Corporate Pensions were established in 2001. As described above, the legal environment surrounding older workers has changed substantially in recent years. In the future, in addition to creating employment, it will be essential to create jobs in non-employee work forms other than entrepreneurial activities. For this, the NPO Law will need to be amended to increase the opportunities for and expand the area of activity of non-profit organizations, and a law on worker cooperatives should also be enacted to permit business organizations for cooperative labor.

With respect to the legal aspects of policy evaluation, three points outlined below are important.

The first is on the difference related to the evaluators. Internal evaluation is performed by those who stand in the same position as the policy makers and most often does not fulfill any legal function. Legally, it only has a meaning as self-examination. The objectivity and validity of a specific system for internal evaluation, however, does have a significant effect on the legitimacy of the evaluation procedures. On the other hand, evaluation by external organizations that are different from the policy-making agencies in terms of legal status may affect decisions on whether certain policies are legally valid. Therefore, in cases where certain policies become a subject of litigation, the fact that the policies were closely and persuasively evaluated by an independent third party may be significant in reinforcing the legal validity of the policies.

The second is on the legal significance of policy evaluation itself. When evaluation

results are notified to the policy makers and serve as meaningful reference for ex post policies, the policy evaluation hardly ever has legal significance. On the other hand, when a change in policies or limitation of ex post policies is predetermined as a result of the evaluation, the evaluation itself may very well have legal significance.

The third is on the relation between policy evaluation and administrative proceedings. When an appeal is made under the Administrative Appeal Law, the legal effect of policy evaluation on measures for implementing the policy in question becomes the issue. In this case, an examining agency's judgment, unlike that of judicial authorities, will be related not to where legal rights and obligations lie, but to the fairness of the policy, and the examining agency will be likely to make a flexible judgment that takes into consideration the policy evaluation. On the other hand, in the case of administrative proceedings, judicial examination will be carried out on the disposition and other acts of an administrative agency that has official power, and a court's judgment will be made on the illegality of the administrative act. Therefore, even though the results of policy evaluation may be taken into consideration during the proceedings, they rarely have any effect on judicial decisions because policy evaluation normally does not contain any legal judgment.

Chapter VIII: Employment of the Elderly in Europe and the U.S. and Policy Evaluation (Katsuhiko Iwata, Shinobu Nogawa, Akiko Taguchi and Kazufumi Yugami)

In this chapter, the state of employment of the elderly and policy evaluation in Western countries were examined (general statement, the United Kingdom, Germany, France, the Netherlands, and Sweden) and then specific cases of policy evaluation in the U.K. and the U.S. were presented. In addition, cases of evaluation of the performance of public employment security offices in Europe and the U.S. were introduced. The state of employment of older persons and employment policies of older persons differs significantly by country. Also, while policy evaluation is actively performed in the U.S. and U.K., it was only recently introduced in countries like Germany.

Chapter IX: Reference (Katsuhiko Iwata, Takashi Fujimoto and Madoka Takai)

Cases of policy evaluation conducted by government ministries and agencies and regional governments, which reflects the current state of policy evaluation in Japan, as well as a summary of the study group's interviews on informed persons are included in the reference.

On the current state of policy evaluation in Japan, the outline of the entire

government's policy on how they should proceed with policy evaluation was explained based on the Ministry of Public Management, Home Affairs, Posts and Telecommunications' "Standard Guidelines on Policy Evaluation." Each ministry's efforts on policy evaluation were also briefly described. For the Ministry of Health, Labour and Welfare, in particular, the specific results of the ministry's policy evaluation were presented. With respect to the administrative evaluation of prefectural governments, a general statement was made on the current state of affairs and a case study was made on Mie Prefecture, which was one of the first prefectures in Japan to introduce policy evaluation.

For the interviews, guest speakers were invited from the Association of Employment Development for Senior Citizens, public employment security offices, the National Association of Silver Human Resources Centers, the Tokyo branch of the Association of Employment Development for Senior Citizens, the Tokyo Metropolitan Government's Labor and Economy Bureau, key persons in management and labor. They and the members of the study group exchanged views. The main report contains excerpts of their discussion.