

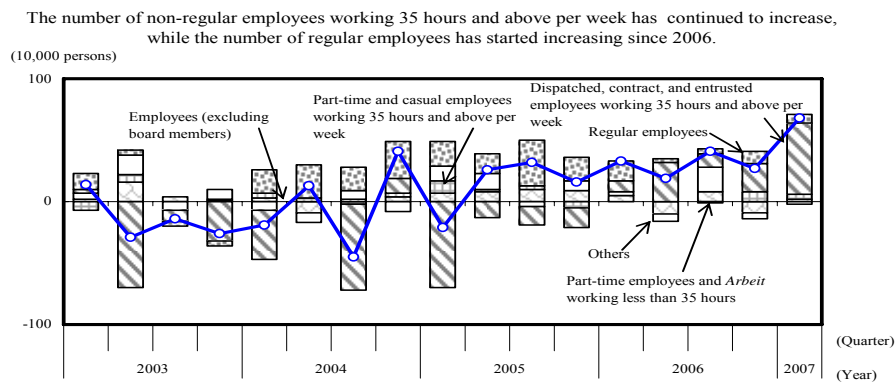
# Chapter 3 Changes in the Labor Market and Their Impacts on the Household Sector

## Section 1 Diversification of Employment Styles and Its Impact on the Household Sector

- The number of regular employees (male) has been increasing in each consecutive quarter since the beginning of 2006, while that of non-regular employees (male) has also been on the increase.
- Among the non-regular employees, those working 35 hours and above per week in particular have been increasing.
- It should be noted that around 20% of workers has had no choice but to take non-regular position, although the number of workers willing to choose the non-regular employment style has exhibited a slight increase.

[Analysis]

**Figure 3-1-2 Trends in the number of employees according to working time (males)**



Source: *Labor Force Survey (detailed version)*, the Ministry of Internal Affairs and Communications  
 Note : Employees working less than 35 hours over the weekend include those who have unidentified working hours.

- Among the non-regular employees, there is a moderate increase in the number of employees who choose the non-regular employment style for positive reasons, e.g. engaging in a higher salaried job.
- However, there was an increase in 2003 in the number of non-regular employees who chose the non-regular employment style for the passive reasons, e.g. there were no companies offering regular employment.

**Figure 3-1-3 Reasons for choosing non-regular employment**

Around 20% of workers were unwilling to choose non-regular employment.



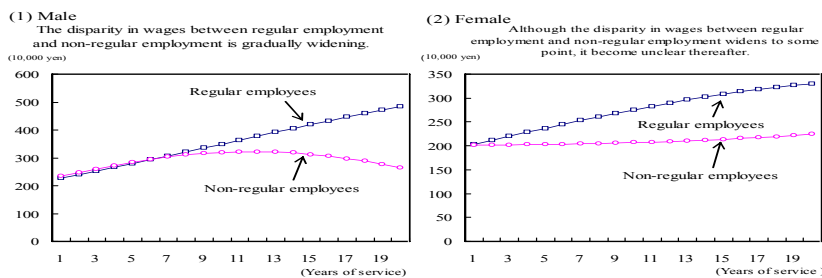
Source: “General Survey on Actual Conditions of Diversification in Employment Styles” (FY1994, FY1999, FY2003) by the Ministry of Health, Labour and Welfare

- The difference in human capital formation between regular and non-regular employees is reflected in their wages.
- Disparity exists in the acquisition of technical knowledge and the skills necessary for their work between regular and non-regular employees.
- The increase in the female labor force participation rate in their late thirties and above stems from an increase in the number of women engaging in part-time jobs.

[Analysis]

- Our estimation reveals that the longer the working period, the greater is the disparity between regular and non-regular employees. The result suggests that human capital, being formed by regular employees through years of working, is reflected in their wages.

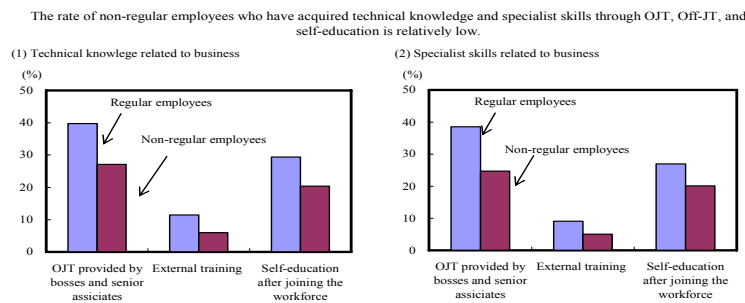
**Figure 3-1-6 Result of verification using the Mincer type wage equation**



Notes: 1. Estimate by the Cabinet Office, using "Basic Survey on Wage Structure (2005)" by the Ministry of Health, Labour and Welfare  
2. The wage curve in the figure is a theoretical value estimated by controlling various variables and assuming a curve of the second order when considering years of service.  
3. The slope of the wage curve has no significance in terms of female non-regular employment.

- Compared to regular employees, non-regular employees have greater difficulty in acquiring necessary knowledge and skills for work through OJT, Off-JT, and self-education.

**Figure 3-1-7 The way of acquiring technical knowledge and special skills related to work by employment style**

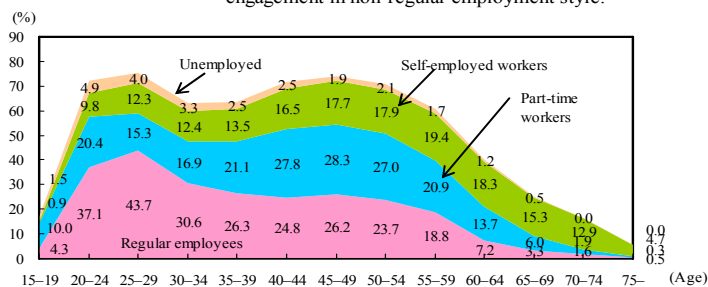


Note: Source: "Survey on Job and Education," Cabinet Office (2006)

- The engagement of women in their thirties and above in part-time jobs contributes to a rise in the labor force participation rate of women.

**Figure 3-1-11 Female labor force participation rate by employment style**

The increase in the female labor force participation rate in late thirties and over is attributed to an increase in their engagement in non-regular employment style.



Source: "Labor Force Survey" (detailed version, the 2006 average) by the Ministry of Internal Affairs and Communications

Notes: 1. This figure represents female labor force participation rate classified by employment style.

2. Labor force participation rate is calculated by "(the number of employed persons + job-seekers)/population aged 15 years old and over".

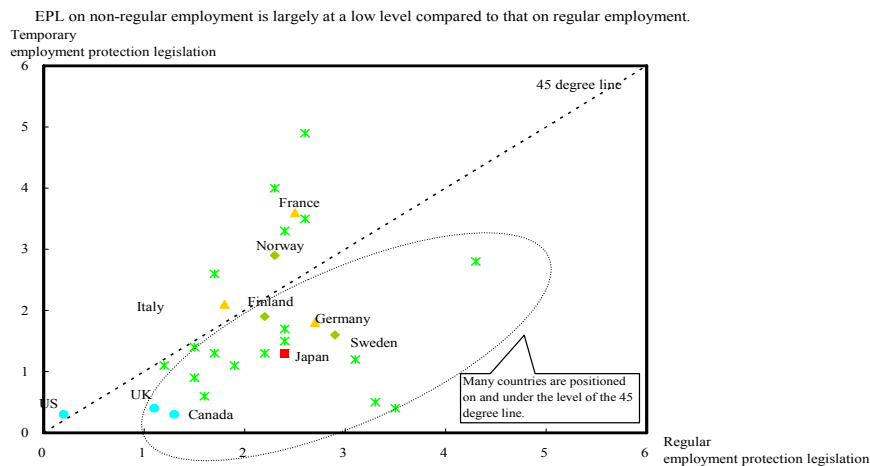
## Section 2 Employment Legislation Reform in response to Changes in Employment Environment

- According to the indices used to measure the strictness of the employment protection legislation (EPL) used for international comparison, the EPL for regular employees is relatively high compared to that for non-regular employees in many countries.
- Amid the changing environment of the labor market, such as diversification in employment styles and establishment of dispute settlement systems, the number of labor relations litigations and individual counseling cases about labor disputes has recently been on the rise in Japan.

[Analysis]

- There is a tendency in many countries that the EPL for regular employees is higher than that for non-regular employees.
- The status of regulations concerning employment protection for regular and non-regular employees in Japan does not differ substantially from that in other countries.

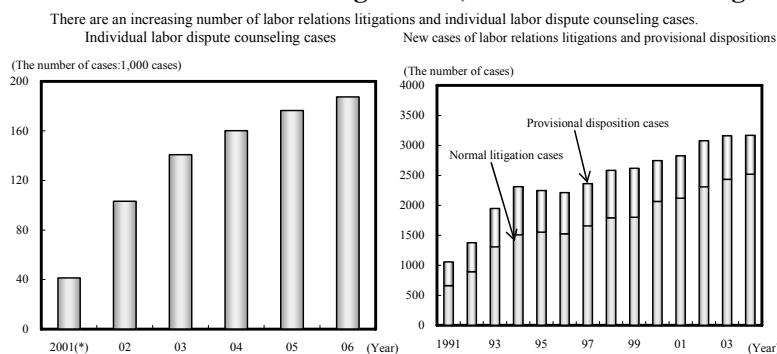
**Figure 3-2-4 Relation of regular and non-regular employment EPLs in OECD countries**



Note: 1. Source: OECD "Employment Outlook 2004"  
 2. The higher each value, the more strict is the EPL.  
 3. Full-time employment refers to regular employment and non-regular employment refers to temporary employment.  
 4. The figure shows that the EPL of temporary employment in countries plotted on and under the 45 degree line is at a lower level, compared to that of regular employment.

- In the middle of the changes in the labor market, such as diversification in employment styles and establishment of dispute settlement systems such as an introduction of the labor tribunal system, there has been an increase in the number of labor relations litigations and individual labor dispute counseling cases.
- In order to improve the labor market, well-structured rules that are comprehensive, facilitate easily understandable settlements and prevent disputes are asked to be introduced.

**Figure 3-2-7 Trends in labor relations litigations (number of counseling and litigation cases)**



Note: 1. Source: "Enforcement of Individual Labor Dispute Settlement System (2006 version)" and "Materials for Labour Policy Council's subcommittee on working conditions" by the Ministry of Health, Labour and Welfare  
 2. The graph for 2001 in the figure (3) shows the number of 6-month cases from October 1, 2001 to March 31, 2002.

### Section 3 Negotiation process on wage and employment conditions

- The role of organizations in wage-setting is analyzed.
- It indicates statistically that there is a wage disparity of employees (male) between working in a company that have an alternative organization for representing workers' voice (Note 1) or a labor-management consultation institution (Note 2), and working in a company without those organizations / institutions.

[Analysis]

- Under the current situation where the number of non-regular employees are increasing and employment styles are becoming more diversified, our estimates suggest that there is a wage difference based on whether or not an alternative organization for representing workers' voice or labor-management consultation institution exists within the company.

**Figure 3-3-6 Wage premium of an alternative organizations for representing workers' voice**

The wage premium is determined for workers belonging to organizations and institutions, excluding labor unions.

Explanatory Variable		Dependent Variable: Natural logarithm of annual salary income			
		Male		Female	
		Coefficient	Significance	Coefficient	Significance
Existence or non-existence of "Voice" type workers' organizations		0.164	***	0.190	
Natural logarithm of company size		0.037	**	0.024	
Final education	Vocational school (Dummy)	0.295	***	0.352	**
	Technical/Junior college (Dummy)	0.245	**	0.313	**
	University (Dummy)	0.239	***	0.372	**
The number of years elapsed since graduation - Years of service		0.006	**	0.003	
Full-time regular employment (Dummy)		0.469	***	0.575	***
Scheduled working hours		0.011	***	0.027	***
Non-scheduled working hours		0.010	***	0.007	
Years of service		0.047	***	0.065	**
Square of years of service/100		-0.078	***	-0.152	

Note: 1. A specially tabulated "Questionnaire survey on wage and employment structure" (2007 version) by the Cabinet Office.  
This is estimated using a regression model.

2. Regarding an item of "Significance" in the figure, \*, \*\*, and \*\*\* indicate significance levels of 10%, 5%, and 1%, respectively.
3. Among the explanatory variables, a dummy variable is "1" in case of correspondence with each item, and "0" in other cases.

Note 1: Among workers' organizations, such as employee societies and social gatherings, an alternative organization for representing worker's voice is one that "negotiates with management working conditions such as the revision of wage rates, working hours, holidays, vacations, and welfare packages," or one which "discusses with management a production plan and management policies."

Note 2: A labor-management consultation institution is a standing consultative body that discusses issues such as management, production, working conditions, and welfare with the labor and the management. A labor union is not included in this body.

## Section 4 The relationship between economic growth and disparity

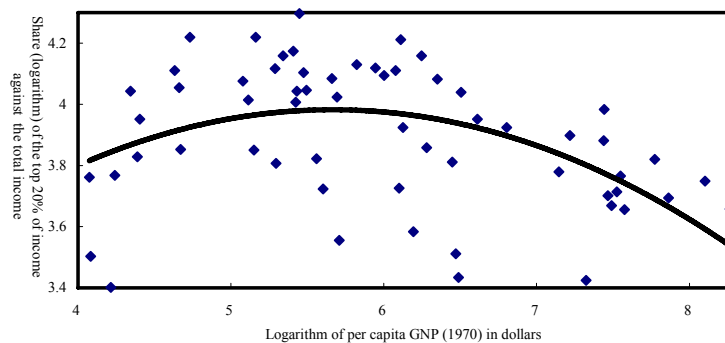
- An inverted U-shaped relation between economic level and a disparity indicator has been known as a historical phenomenon (Kuznets' curve).
- However, in light of recent trends, there seems to be a tendency toward widening disparity with economic growth in some areas.

[Analysis]

- There is an inverted U-shaped relation between per capita GDP and a disparity indicator in each country. Refer to the scatter-plotted diagram below that shows the relationship between the level of disparity and income in each country by cross-section data.
- The diagram shows that disparity temporarily increases, depending on each phase of economic growth; however, it diminishes afterward.

**Figure 3-4-1 Per capita GDP and disparity indicator**

An inverted U-shaped relation can be seen between the per capita GDP and a disparity indicator : Kuznets' inverted U-shaped hypothesis

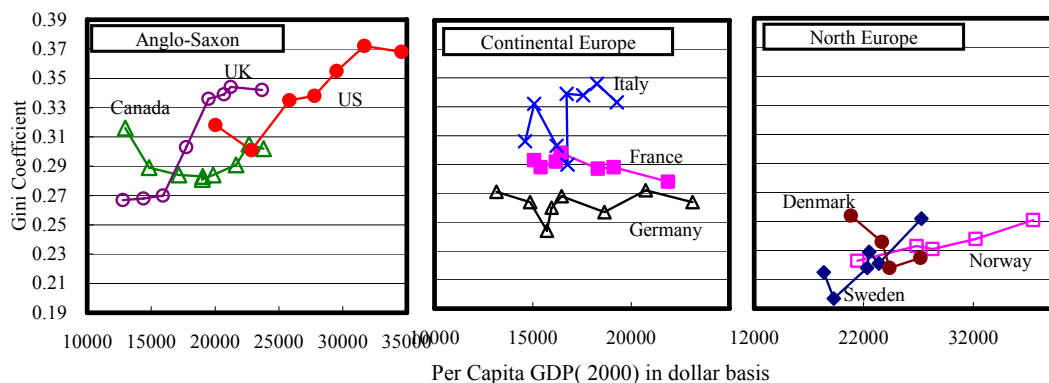


Source: Montek S. Ahluwalia's "Inequality, Poverty and Development" (1996)

- Since the 1980s, there has been a tendency toward increasing the disparity along with economic growth in Anglo-Saxon nations.
- On the other hand, during the same period, there seemed no (or slight) widening of disparity observed in continental Europe and in North European nation.

**Figure 3-4-7 Economic growth and disparities in European nations**

Widening of disparity is moderate in Continental Europe and North European nations, while disparity is on a widening trend along with economic growth in Anglo-Saxon nations.



Source: OIis-net of OECD, Luxembourg Income Study(<http://www.lisproject.org/keyfigures/ineqtable.htm>)

Note: 1. Per Capita GDP is real GDP calculated in a fixed exchange rate of the year 2000. Attention should be paid to differences of scales used in each of the figures.

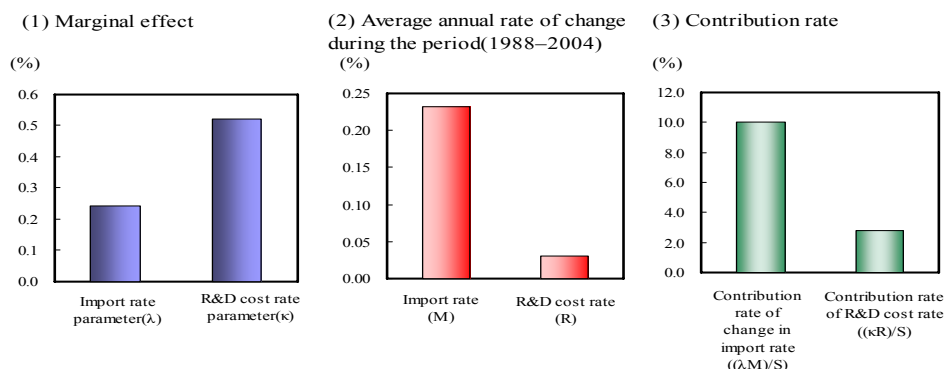
2. The figures use numerical values based on largely from the 1970's to the early 2000.

- The impact of globalization and development of IT on the widening disparity was verified to some (not at all full) extent.
- In addition to a conventional income redistribution policy, the system integrating income tax and social security policy—called Earned Income Tax Credit—has been introduced and has gained popularity as a measure to address poverty in foreign countries.

[Analysis]

- Globalization and development of IT have both been seen as factors that impact widening disparity, although various other factors should also be considered, for instance, changes in population structure. Our estimation suggests that their overall impact is limited, though they contribute to widening disparity to some extent.

**Figure 3-4-8 Impact of skill-based technological change (SBTC) and globalization on disparity**



Sources: "Basic Survey on Wage Structure" by the Ministry of Health, Labour and Welfare, "Report on the Survey of Research and Development in Japan" by the Ministry of Internal Affairs and Communications, "Foreign Trade Overview" by the Japan Tariff Association.

Note: Categorization data of the manufacturing sector was pooled based on the "Shift of demand to skilled labor in the manufacturing sector," which is estimated by using a fixed effect model. The estimation equation is as follows:

$$S_{it} = \alpha + \mu \ln(K/Y)_{it} + \lambda M_{it} + \kappa R_{it} + \alpha_i + \varphi_t + \varepsilon_{it}$$

S: Payroll rate for college graduates, K/Y: Capital intensity  
M: Import rate from East Asian nations, R: R&D cost rate against sales  
 $\alpha$ : Individual effect,  $\varphi$ : Time effect

- Income taxation systems that encourage low-income individuals to work without reducing social security benefit payments were introduced in nations such as the US and the UK; these have brought about positive results with reservations.

**Figure 3-4-13 Effect of the Earned Income Tax Credit System in the US and UK**

The introduction of the Earned Income Tax Credit System encourages employment, especially for single parents with

	E I T C (US)	W F T C (UK)	
Cost	0.33% of GDP	0.6% of GDP	
Number of recipients	One fifth of the household sector	One twentieth of the household sector	
Effect on employment	Observed value: Percentage points change in participation rates (based on natural experiments)	Observed value: Percentage points change in transitions from non-employment to employment (based on simulation) <sup>a</sup>	
	Single mothers <sup>b</sup>	2.4	
	Married women <sup>c</sup>	-2.4	
	Married men <sup>c</sup>	0.2	
	Single parents	2.20	
		Married women with non-working spouses	1.32
		Married women with working spouses	-0.57
		Married men with non-working spouses	0.37
		Married men with working spouses	0.30

Source: OECD (2003)

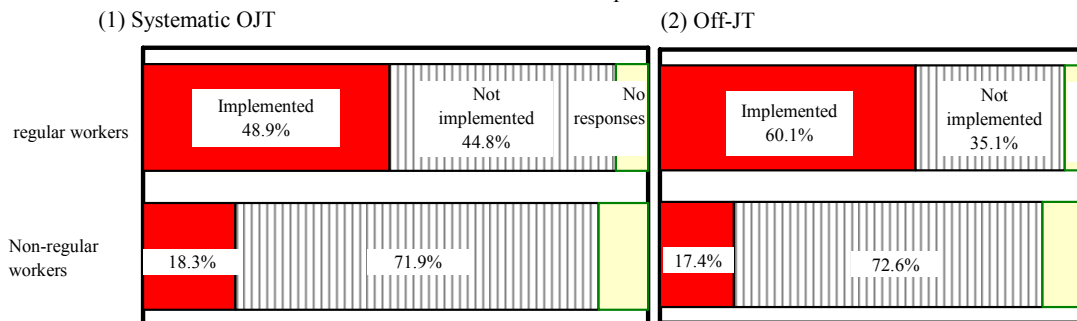
Note: a is estimated by Blundell and Hoynes (2001); b, Eissa and Liebman (1996); c, Eissa and Hoynes (1998).

- In order to address inequality, it is crucial to impart education and training opportunities to workers in general.
- However, disparity exists between regular and non-regular employees in terms of in-house job training opportunities.
- Presently, several governmental measures are preparing; providing education and training opportunities and capacity development programs to raise the level of growth potential of workers in general.

- The disparity in in-house job training between regular and non-regular employees is reflected by the concern of the firms that non-regular employees have highly mobile status; even if a firm gave non-regular employees vocational education and training, they would not stay in the firm and the provision would end up in vain for the firm.

**Figure 3-4-16 Disparity in terms of in-house training between regular and non-regular workers**

There is a great disparity between regular and non-regular employees in terms of the implementation of systematic OJT and Off-JT at the companies.



Note: Source: "Capacity Building Basic Survey (2005 version)" by the Mitsubishi Research Institute (2006), entrusted by the Ministry of Health, Labour and Welfare. Number of valid responses: 1,316.

- It is required that both regular and non-regular employees are treated equally within each firm. In addition, the system that provides education and training opportunities to all employees, regardless of employment styles, is also required to be established.
- The implementation of capacity-developing measures through "Comprehensive 'Challenge Again' Support Plan" and "Strategy for Raising the Level of Growth Potential (Basic Concept)," both of which were recently drawn up by the Japanese government, should play a vital role in addressing such issues.

**Figure 3-4-15 Overview of "Comprehensive 'Challenge Again' Support Plan" and "Strategy for Raising the Level of Growth Potential (Basic Concept)"**

It is expected that the new policies will enhance individual's morale and capability.

(1) Comprehensive "Challenge Again" Support Plan (Excerpt)

- To revise the Employment Measures Law (to enable employers' efforts to secure youth employment)
- To revise the Part-Time Work Law (for equal employment treatment)
- To expand social security coverage for part-time workers
- To increase the staff for one-on-one counseling ("Challenge Again" planners) at "Hello Work" job placement offices
- To increase subsidies to firms that are willing to offer permanent jobs after a trial period
- To adapt job training courses to meet the needs of specific job-offering companies
- To provide single mothers with support in finding jobs. To provide children who are willing to study with comfortable and safe opportunities to study after school and during the weekends, through cooperation with local communities, regardless of the economic strength of the families, etc.

(2) Strategy for raising the level of growth potential (Basic concept) (Excerpt)

(1) Establishing the "Vocational Capacity Development System" (known as the "Personal Job Cards System")

- To provide practical job training opportunities through the "Vocational Capacity Development Program."
- To issue the "Job Card" where participation in training or achievements evaluation accreditation made under those programs are to be specified
- To provide financial aid to program participants and participating firms
- To offer "career consulting services" to persons willing to participate in training programs and find jobs

(2) Establishing the "Practical Education System" with the help of universities and vocational schools

- To establish the "Practical Education Program" at universities and vocational schools
- To deliver a certificate to persons who complete training programs, and record achievements made under those programs in the Job Cards.